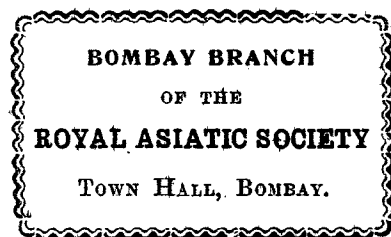




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RETURN

Pursuant to an Address of the HOUSE OF LORDS, dated 10th March 1882,

FOR

COPIES OF EXTRACTS of all CORRESPONDENCE between the SECRETARY OF STATE FOR INDIA and the GOVERNOR-GENERAL IN COUNCIL, from the 1st of January 1878 to the present time, respecting the PROSECUTION, firstly, of PRODUCTIVE PUBLIC WORKS by MEANS of BORROWED FUNDS; secondly, of WORKS designed for PROTECTION against FAMINE and commonly described as PROTECTIVE WORKS, and thirdly, of MEASURES taken for the PURPOSE of FAMINE INSURANCE.

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(The Earl of Lytton.)

Ordered to be printed 23rd March 1882.

RETURN, &c.

PART I.

PONDENCE RESPECTING THE PROSECUTION OF PRODUCTIVE PUBLIC WORKS BY MEANS OF BORROWED FUNDS.

No. 1.

SPEECH BY SIR ANDREW CLARKE, JANUARY 16, 1878.

See No. 132, page 219.

No. 2.

EXTRACTS FROM LETTER FROM THE GOVERNMENT OF INDIA, March 18, 1878, No. 126
(Financial).

1. . . . We have the honour to forward herewith copy of our Resolution No. 1,911, dated 18th March, with the statement, abstracts, and appendices annexed thereto, being the regular estimates of revenue and expenditure and receipts and disbursements for the year 1877-78, and the budget estimates for the year 1878-79.

* * * * *

2. . . . We are doing our best to obtain correct information as to the proportion of the land revenue which can be attributed to our expenditure upon productive works of irrigation; but we have not yet succeeded in our object. The deficiencies chiefly affect the Madras figures, and are of a nature to prevent the accounts as now presented in the new form showing results that can be esteemed at all trustworthy.

* * * * *

6. For the present we have reckoned the interest on the capital cost of productive works at 4 per cent. upon the amount spent to the end of the preceding year, and 2 per cent. upon that spent during the year of account.

Enclosure 1 in No. 2.

EXTRACT FROM THE RESOLUTION BY THE GOVERNMENT OF INDIA, March 18, 1878, No. 1,911 (being the Financial Statement for 1878-79).

70. Although there is hardly any branch of the public administration, improvement in which will not help the Government to fulfil the great task which it has undertaken, it is obvious that the principal means by which the end in view will be attained is the construction of works for increasing the productiveness of the country, and improving its communications. Of all things, therefore, the most essential at the present time is this, that the best and most economical arrangements possible should be made with the least practicable delay, yet with no unwise precipitancy, in covering the country with that net-work of railways, and with those works of irrigation, which the country requires.

71. The development that has been recently given to the financial responsibilities of the local governments, and the transfer to some of them of the entire charge arising from the larger reproductive public works constructed within their territories, having been approved by Her Majesty's Government, and otherwise being found by experience to be conducive to improved administration

and public economy, the Government of India has adopted the conclusion that it should be generally applicable as soon as circumstances permit, and the needful preliminary arrangements have been completed with the several local governments and administrations.

72. This resolution renders it necessary to review the rules under which funds are sanctioned for the prosecution of such works, the sanction of expenditure takes place, and the general system of financial and administrative, is conducted; and the urgency for this is the greater inasmuch as the Government of India has declared its intention of applying the funds at its disposal, for the protection against famine, to works to be carried out through the agency of the local governments.

73. Her Majesty's Government have also recently directed that certain modifications be made in the method of recording the financial results of all such works, with a view to presenting them to Parliament in a form likely to be more readily understood, and the present opportunity may be taken for consolidating and revising the rules that have hitherto been in force for this class of works.

74. The policy which has hitherto guided the Government of India in its action has been based on the assumption, which experience has shown to be a sound one, that the gradual improvement of the income derived from the larger reproductive works, including under this head the guaranteed railways, would admit of a certain yearly additional expenditure of borrowed money for extensive undertakings, without bringing on the revenues any consequent larger net charge, when the income had been set off against the increased interest on the borrowed capital. It was on this principle that Lord Lawrence in 1869, in his minute on railway extension, advocated the gradual but systematic construction of railways, and on it the Government has since been acting with most satisfactory results. By regulating its operations within these prudent limits, the Government has been able to apply a sum of not less than 25½ millions to reproductive works during the last eight years, without thereby adding to the total charge of interest on account of the public debt, including under that name the guaranteed railway capital.

75. It is the intention of the Governor General in Council to follow the same general course in the future, subject to such modifications of detail as will be required by the somewhat changed system that will henceforth be adopted on making use of the agency of the local governments in carrying out the works. Heretofore the aggregate interest charge on the capital invested in the works had to be met from the general revenues, under the condition that the net burden should not exceed a certain sum which experience had shown could be borne without inconvenience; so, in future, a similar liability will be held to attach to the provincial outlay of capital applied to these objects, otherwise than from the revenues of the year. The provincial revenues will be made to bear the net charge for all interest on such capital, after deducting the net receipts from the works; and the net burden of interest thus thrown on the provincial resources year by year will not be allowed to exceed the sum which in each case experience shows that they can bear without inconvenience or undue interference with other administrative demands.

76. It will manifestly be a necessary condition of success in carrying out such a policy that the works undertaken shall in fact produce the growing income from which to meet the gradual increase of interest charge; and it therefore becomes essential to examine very strictly the character of all projects brought forward for execution, so that borrowed capital shall not, under any circumstances, be supplied for any work of which it cannot reasonably be anticipated that it will in a definite period of time produce a net income at least as great as the interest on the capital outlay upon it.

77. Further, the same limitation that it is thus necessary to apply to the grant of borrowed money to these works, must also be applied to the grant of all funds the expenditure of which does not appear as a direct charge against the revenues of the year, under which will be included the new resources lately specially created to provide a surplus from which to meet charges on account of the relief or prevention of famine.

78. The sum that is likely to be available for capital outlay on works of this class from the ordinary revenues would, under any circumstances, be small, and the inconvenience of distinguishing in the accounts between outlay from ordinary revenue, and that met from other sources, would be great. The justification for granting, for productive works, funds from the surplus revenues which might otherwise be applied to the extinction of debt, is, that so far as it prevents an increase of debt, it will virtually be equivalent to a corresponding discharge of debt; a condition, however, that cannot be fulfilled unless the works are properly remunerative. In all cases then the interest on the whole capital, from whatever sources it is obtained, must be secured generally by the provincial revenues, and specially in each case by the ascertained profitable character of the work, so far as a careful examination can serve to test it.

79. It will be seen that the general policy thus explained necessarily starts with the acceptance, for a limited period, of a dead weight of interest charge during the time when the income of the works is not fully developed. This charge may properly be met from the provincial revenues at the disposal of the local governments for carrying out works of internal improvement; and Her Majesty's Government has recognised the propriety of thus applying the local resources, subject to the general obligation that rests on local governments to see that the essential wants of the provinces under their administration are provided for in the manner that shall on the whole be most conducive to their well-being.

80. The reasons that support this view will likewise justify the Government of India in accepting, in proof of the financial sufficiency of the estimated income of any proposed work, during what may be termed the unremunerative period of its operation, a calculation which should include any well established saving of outlay that would follow upon the execution of the work, such as the reduction of the cost of maintenance of a road which would be diminished in consequence of the opening of a line of railway.

81. So also in the case of any work undertaken avowedly with the intention of its being wholly or in part paid for by any special rate or cess imposed, outside of all general rates or taxes, on those likely to benefit by the work, the proceeds of any such special rate would be properly included with any ordinary receipts due to specific payments for the actual use of the work as income in the estimate of financial return.

82. In these cases, and possibly in others, special considerations will present themselves, on which the Government of India will have to form a judgment as they arise, but the general principles that have now been laid down will indicate the spirit in which any such proposals will hereafter be dealt with.

83. Within the limits thus marked out, the Government of India will endeavour to meet the reasonable requirements of the local governments for funds, in addition to those available for expenditure from the ordinary revenues, to carry out works of material improvement, especially such as will have for their more immediate effect the protection of the country against the effects of famine, whether by supplying improved means of communication, or of irrigation, or otherwise. The power of the Government of India to do this, however, will be necessarily restricted by the amount that it can spare from the surplus revenues, or raise by loan without unduly forcing the money market, or coming under inconvenient liabilities. Neither can it consistently with the instructions of Her Majesty's Government enlarge the borrowed grants beyond the sums that can be raised in India.

84. It will be the wish of the Governor General in Council to comply as far as possible with the wishes of the local governments in carrying out the policy thus explained, subject of course to any instructions of a general or special character that may be given by the Secretary of State, or that may be and otherwise necessary to secure financial regularity or administrative convenience.

85. Under orders of the Secretary of State, works of the class now under consideration will henceforth be designated as productive public works, and the expressions extraordinary works and grants will cease to be employed. The whole of the rules now in force as to the preparation of designs and estimates, and the sanction of works hitherto called extraordinary, and as to the grants of funds to carry out such works and the manner of rendering the accounts, will however continue to be applicable to all productive public works already constructed or hereafter undertaken.

86. As a rule, all productive works, which will for the most part consist of works of irrigation or navigation and railways (excluding however the guaranteed railways, which will continue to be managed as heretofore), within the territories of the several local governments and administrations, will be carried out under their direct orders and financial management, subject only to a general control by the Government of India, and in the manner described in the detailed rules that will be issued hereafter. The earliest possible effect will be given to this arrangement.

Enclosure 2 in No. 2.

STATEMENT in explanation of the ACCOUNTS of BRITISH INDIA for the year 1876-77, the latest estimates for the year 1877-78, and the first estimates for the year 1878-79.

Hitherto the guaranteed interest paid to railway and other companies has been shown net, after deduction of the net traffic receipts: henceforth, the whole net traffic receipts received from the companies, including all the gain by exchange whether upon capital or revenue account, will be shown, in one line, as revenue, and the gross payments of interest and surplus profits to the companies, together with the cost of land and of Government supervision, will appear in another line, as expenditure.

A new head has been introduced to show separately the working expenses and maintenance charges of irrigation works, which charges have hitherto been incorporated under *Public Works Ordinary*. The growing importance of these works demands this separation. From this head and, henceforth, from the head of *State Railway Expenditure* will be excluded all capital expenditure: the object being to afford the means of a comparison between the revenue and the working expenses of these works. Such capital expenditure as may not, under rule, be transferred to the head *Productive Public Works* will be recorded under *Public Works Ordinary*.

Under instructions from the Secretary of State, the heading *Productive Public Works* has been substituted for *Public Works Extraordinary*. The change is significant of a more rigid adherence to the sound policy of excluding nothing from the total expenditure upon a comparison of which with the revenue the surplus or deficit of each year is ascertained, excepting expenditure which may confidently be expected to produce a direct net return at least equal to interest upon it at the current rate.

A fresh abstract statement No. II. is appended in the form in which the Secretary of State has resolved, for the future, to present the accounts of the revenue and expenditure of British India to Parliament. The design of this change of form is that the transactions relating to the investment of capital by the State in works of material improvement, and the financial consequences of such investments, may, as far as possible, be distinguished, upon the face of the balance-sheet of the country, from the rest of the transactions of the State.

The true financial result to India in 1877-78 of the guaranteed railways is thus expected to be a net charge of 9,000*l.*, being an improvement upon the result similarly calculated from the budget estimates of no less than 1,333,000*l.*

Some portion of this improvement is doubtless due to the prolongation of the famine: the Government of India has repeatedly taken occasion to acknowledge the vitally important services of these railways in the operations for the relief of the great population suffering from that calamity. Calculations have been made which indicate that the famine does not account for more altogether than 600,000*l.* of the excess net earnings of the guaranteed railways during the two years 1876-77 and 1877-78.

The following table contains the statistics of these undertakings for the last few years :—

	1872-73.	1873-74.	1874-75.	1875-76.	1876-77.	1877-78.		1878-79, Estimates.
						Original Estimates.	Latest Estimates.	
Miles open - - -	5,346	5,562	5,596	5,812	5,998	6,047	6,037	6,049
	£	£	£	£	£	£	£	£
Gross earnings - - -	7,510,076	8,320,279	8,931,187	8,966,376	10,885,098	9,279,400	13,147,000	11,210,000
Working expenses - - -	4,645,749	4,707,835	4,748,739	4,703,457	5,774,194	4,845,100	6,834,500	5,844,500
Per-centage of working ex- penses on earnings.	61·86	56·58	53·17	52·46	53·23	52·21	51·98	52·14
Net Revenue - - -	2,864,327	3,612,444	4,182,448	4,262,919	5,110,904	4,434,300	6,312,500	5,365,500
Gain by exchange on capital account.	55,473	42,133	78,175	35,593	70,651	33,700	49,500	31,500
Total Revenue - - -	2,919,800	3,654,577	4,260,623	4,298,512	5,181,555	4,468,000	6,362,000	5,397,000
Gross guaranteed interest—								
Paid in India - - -	42,115	39,191	36,799	33,414	23,736	26,100	20,600	19,600
Paid at Home* - - -	4,619,249	4,631,531	4,659,755	4,656,886	4,686,751	4,692,000	4,685,000	4,749,800
Total guaranteed Interest (sterling converted at average exchange of the year).	4,901,312	5,013,391	5,069,514	5,196,931	5,513,342	5,331,000	5,429,000	5,607,000
Surplus paid to Companies - -	85,395	91,501	427,561	227,251	296,028	400,000	872,000	642,000
Land and Supervision - - -	161,056	152,438	55,394	83,313	51,633	78,000	68,000	81,000
Interest on revenue balances -	23,136	26,934	35,643	34,970	34,936	1,000	2,000	2,000
Total Expenditure - - -	5,170,899	5,284,264	5,588,112	5,542,465	5,895,939	5,810,000	6,371,000	6,332,000
Net cost to the Public Treasury	2,251,099	1,629,687	1,327,489	1,243,953	714,384	1,342,000	9,000	935,000

* Excepting those in this line, which are true sterling, all the figures in this table are rupees converted into sterling at the conventional rate of 17. = Rs. 10.

It is not too much to say that the enormous increase in the gross earnings of these railways has taken every one by surprise. In his financial statement made on the 15th March last, the Hon. Sir John Strachey drew attention prominently to the fact that, for the first time, the gross earnings were expected in 1876-77 to exceed 10,000,000*l.*: the sum of 10,885,098*l.* was actually earned in that year. It was estimated that 9,279,400*l.* would be similarly earned in 1877-78: the estimate has now grown to no less than 13,147,000*l.*, being an excess in the year of 3,867,600*l.* If this estimate be realised (and there is no reason to doubt that it will be realised), the earnings of these lines in 1877-78 will have increased by 72 per cent. in five years. Meanwhile the per-centage of working expenses has not increased but diminished steadily from 61·86 in 1872-73 to 51·98 in 1877-78, which is creditable to the administration of the companies.

Now that the East Indian and Great Indian Peninsula Companies are earning surplus profits each half-year, the growth of the traffic benefits the State proportionately less than it did. Of the gross earnings this year the unprecedented sum of 871,400*l.*, being more than double the estimated amount, will be surrendered to the companies as surplus profits. But, altogether, the recent history of the railways constructed by the Guaranteed Indian Companies is exceedingly satisfactory.

The several railways have contributed to the net increase over the original estimates this year as follows :—

	£		£
East Indian Railway -	859,900	Bombay and Baroda -	136,500
Great Indian Peninsula -	348,000	Eastern Bengal -	102,500
Sind, Punjab, and Delhi -	180,000	Oudh and Rohilkhand -	62,000
Madras Railway -	161,200	South Indian -	40,300

This great growth of the traffic upon the *guaranteed railways* has been closely bound up with the simultaneous growth of the trade of India, which, without their assistance, could not have attained its remarkable development.

Enclosure 3 in No. 2.

MINUTE by the VICEROY, March 12, 1878.

1. In the observations I addressed to the legislative council on the introduction of the measures of taxation that have lately become law, I dwelt on the altered position in which the local governments would be placed in relation to the prosecution of public works under the enlarged responsibilities with which it was proposed to entrust them.

2. Speaking of the fundamental principle of this policy, which has been fully accepted by Her Majesty's Government, I said that it—

“ involves the enlargement, with adequate precautions, of the financial, and consequently also of the administrative, powers and responsibilities of the local governments. In the next place we believe

“ that, if this principle be fairly carried into effect, the new imposts which the council is now asked
 “ to sanction, will, when added to the resources already created, provide the State with sufficient
 “ means for the permanent maintenance of a national insurance against famine without heavily in-
 “ creasing the pecuniary burdens of its subjects. For the attainment of this object, the material
 “ appliances we intend to promote by means of additional revenue are cheap railroads and extended
 “ irrigation works. We are conscious of the reproach we should justly incur if, after such a
 “ declaration as I have now made, the prosecution of these necessary works were commenced,
 “ suspended, or relinquished, according to the increased or relaxed pressure of annual circumstance,
 “ or the intermittent activity of spasmodic effort. We, therefore, propose to entrust, in the first
 “ instance, to the local governments the duty of framing a sufficient and carefully considered scheme
 “ of local railroad and irrigation works. We are prepared to provide them with the means whereby
 “ they may from year to year work systematically forwards and upwards to the completion of such
 “ a scheme. The funds locally raised for this purpose will be locally applied. But provincial
 “ governments will have to meet the cost of provincial famines out of provincial funds to the fullest
 “ extent those funds can bear. They will find that thriftless expenditure in one year may involve
 “ the risk of diminished allotments in subsequent years; and I cannot doubt that the unavoidable
 “ recognition of this fact will make them wisely eager to spend the requisite proportion of their
 “ annual income upon well-planned and carefully estimated railway and irrigation works, which will
 “ be their best insurance against the losses of famine and the postponement of all administrative
 “ progress which famine generally entails. It will be the special duty of the Public Works Depart-
 “ ment of this Government to keep those objects constantly in view of the local governments, and
 “ to assist them no less constantly in their endeavours to give a rational preference to really useful
 “ and remunerative works over those more captivating but less compensating subjects of expenditure
 “ which, in all comparatively small communities, so powerfully appeal to provincial pride, professional
 “ proclivities, or popular pleasure.”

3. It now becomes my duty to invite my colleagues in charge of the two departments on which
 “ will mainly devolve the task of giving effect to the policy thus sketched out (that is to say, the
 Public Works and Financial Departments), to consider and propose the further measures requisite for
 accomplishing the object of it. Considerable progress has indeed been already made in this direction.
 The orders that will shortly issue on the report of the committee assembled last autumn at Simla,
 and the supplementary report more recently received, will do much to facilitate the operations of the
 local governments; and to place their relations with the Government of India on the footing that is
 now requisite.

4. But, while requesting the co-operation of my colleagues in this important task, I feel that I
 should be imperfectly performing my own duty if I did not endeavour to the best of my ability to
 lay down the lines on which the action of our Government should proceed in the prosecution of the
 great object which for many months past has been one of the chief causes of our solicitude.

5. The sole justification for the increased taxation which has just been imposed upon the people of
 India for the purpose of ensuring this empire against the worst calamities of future famine, so far
 as such an insurance can now be practically provided, is the pledge we have given that a sum not
 less than a million and a half sterling, which exceeds the amount of the additional contributions
 obtained from the people for this purpose, shall be annually applied to it. We have explained to
 the people of this country that the additional revenue raised by the new taxes is required, not for
 the luxuries, but the necessities of the State; not for general purposes, but for the construction
 of a particular class of public works; and we have pledged ourselves not to spend one rupee of the
 special resources thus created upon works of a different character, while we exercise the most strict
 economy in all other branches of our expenditure, so that no greater burdens shall be thrown on the
 country than are absolutely required by the necessities of the case.

6. The pledges which my financial colleague was authorised to give on behalf of the Government
 were explicit and emphatic, as regards these points. It was, however, impossible to explain in detail
 to the public the precise character of these administrative guarantees which the Government of
 India then bound itself to provide for the faithful redemption of the above-mentioned pledges.

7. Owing to this impossibility, the manner in which the proceeds of the new taxation are to be
 applied to the reduction of debt is the only part of our financial programme as to which any mistrust
 of our sincerity has been indicated on the part of the community. For this reason it is all the more
 binding on the honour of the Government to redeem to the uttermost, without evasion or delay,
 those pledges, for the adequate redemption of which the people of India have and can have no other
 guarantee than the good faith of their rulers.

8. Now the engagements which the Government of India has bound itself to fulfil are the
 following:—

1st. To apply funds from the surplus revenues at the rate of 1½ million sterling per annum
 in such a manner as to create what shall, in fact, be an insurance fund, by which future expenditure
 for famine relief can be provided for without adding to the permanent burdens on the revenues.

2nd. To bring about this result, either by the direct discharge of debt in times of prosperity, or by
 investments of surplus revenue in productive public works, under conditions that shall ensure their
 being really remunerative, and that they shall at the same time supply to the country the best
 material protection against famine.

3rd. To comply with these conditions by carrying out in all the provinces of India, as speedily as
 our financial position and other economical considerations will admit, all approved extensions of
 irrigation, and a complete system of cheap railroads primarily and specially adapted to a slow goods
 traffic.

4th. To secure to the utmost the financial basis of this undertaking, by assigning to, and concentrating upon, the local governments the financial responsibility and administrative powers necessary for the designing, commencement, completion, and maintenance, within their respective provinces, of such a system of works as shall fulfil the requirements of the case for each of them.

5th. To arrive at this result by giving to these local governments the maximum of pecuniary interest and profit in the cheap construction and successful management of all provincial public works; by reducing to a minimum interference on the part of the Government of India in the administration of such works; and by not permitting such interference to extend beyond what is necessary to ensure regularity and harmony of action, or protection to the general financial interests of the State.

9. To carry out adequately the engagements thus publicly contracted, immediate, consistent, and persistent adherence to certain lines of conduct on the part of the central government is absolutely necessary.

10. In the first place, the great and dominant condition which must necessarily govern our action, determine every direction, and influence every detail in the prosecution of a policy on the success of which the character and efficiency of our Government will henceforth be properly held to depend, is decentralisation of the administration, and consequent reduction of the central establishments. These conditions apply more or less to all departments of the Supreme Government; but, from the nature of the case, it is in the Public Works Department that they will chiefly operate, and that the loyal and intelligent recognition of them will have the amplest and most beneficial results. I need not, however, now dwell further on the paramount importance of the efficient application of these conditions to all departments of the Supreme Government, because it has already been decided in Council to constitute and appoint a committee for the purpose of working out in detail recommendations to be submitted to the Governor General in Council for the reduction of all the central establishments in just proportion to the diminution in the administrative work of each department, relatively one to the other, which may be reasonably anticipated from the practical operation of the decentralisation policy now adopted and proclaimed.

11. In the next place, inasmuch as it is upon the local governments that the responsibility has been placed for the provision, maintenance, and management of local protective works, it is with the local governments, and not with the Government of India, that the initiative must now rest, as regards the recommendation and elaboration of schemes for giving effect to this policy.

12. Further, it must be distinctly understood, and constantly borne in mind, that as the improvement of the means of communication throughout the country is without doubt one of the most certain means of giving protection from famine, the rapid and cheap construction of provincial railroads, specially constructed for a slow goods traffic, is an object to which all the financial resources of the Government of India, available for this class of works, aided by those of the local governments, must now and for many years to come be primarily, if not almost exclusively, directed. The desired economy should be sought for by rigorously excluding from our present consideration all proposals that will sensibly add to the first cost of construction, whether for works or carriages, anything not essential for meeting the main end in view,—a local goods traffic. It will certainly be better to pay somewhat more, after the lines become remunerative, for additions then found desirable, than to delay the early general extension of railways in order to supply what, in some sense at least, are luxuries.

13. It is also now essential that the Government of India in the Public Works Department should seriously re-consider its action in respect to lines passing through native states; and that it should, without loss of time, take such steps as may be possible to secure its financial position in regard to those lines, so that while the provision of such improved means of communication in the territories of our native feudatories is encouraged as far as possible, they shall not become causes of delay in the extension of railways through British provinces, the revenues of which have till now almost exclusively supplied the means of carrying out the lines which pass through native states.

14. In every case of a line passing through native territory, vigilant foresight and re-doubled care will be required from the Public Works Department to provide financial guarantees sufficient to replace that responsibility for results which is guarded, in the case of provincial lines, by the liability of provincial revenues to make good all deficiencies in the estimated profits on expenditure. If this condition of our present and future action be not carefully observed in the Public Works Department, the Government of India may be exposed to a great scandal.

15. Caution is also needed on the part of the Public Works Department in respect to outlay, both as regards capital outlay and working expenditure on guaranteed railways, more especially on those of which the receipts do not cover the guaranteed rate of interest.

16. In amplification of these general principles, there are some observations on the manner* of applying them which I desire to add.

It will henceforth be necessary to exercise great caution when devising railroad projects or ordering surveys on behalf of railroad projects, which are not essential to the purpose I have indicated, and which would, therefore, involve the diversion of necessarily limited funds to objects other than those to which all the available financial resources of the Government of India must for many years to come be devoted. Any preliminary expenditure that will not lead to the eventual execution of some useful work, or tend to reduce the risk of error in the preparation of projects for actual execution, will be wasteful, and should not be permitted.

17. Next, to ensure the rapid and general extension of railways, it is essential that they should be cheap, and designed as simply and economically as may be consistent with the practical demands of a slow goods traffic, while proper attention is given to permanence in the construction of the principal works. From this point of view some reconsideration of existing rules (relating to the preparation

and sanction of projects) may be requisite, so as to give reasonable facilities for the gradual execution of railway works. It is certainly not expedient to force prematurely the provision of conveniences, though in themselves desirable, which will operate as causes of expense, and which might be postponed without sacrifice of substantial efficiency. The early opening of the lines in a manner that will admit of a properly economical slow traffic of goods is the object to be aimed at, rather than the complete provision of all those appliances which the profuse expenditure on our guaranteed railways has in their case supplied, and which through them have come to be looked upon as necessities. Those who find in the absence of such luxuries a just cause of complaint should be reminded that all Indian railways are provided at the cost of the Indian tax-payer, and that the well-being of the country at large must receive attention before merely personal comfort.

18. Speaking of the lines of railway we now have to provide as a whole, it may certainly be said that the traffic upon them will be light, and that the financial obligations to construct them at the smallest possible cost are paramount. In respect to these lines I regard the question of gauge as no longer open. Our experience is already sufficient to prove that narrow gauge lines admit of considerable economy in first construction, and that they are fully capable of carrying any traffic likely to be brought upon them as cheaply at least as a similar traffic could be carried on any railway. The Government of India having some years ago decided that the narrow gauge should be adopted for such lines as those to which I am now referring, much progress having been already made in their prosecution, and no reason existing for going back from the original decision, I hold it to be finally settled that this system of construction shall be exclusively adopted in future, so far as regards the class of railways here under consideration.

19. That there may be lines of communication on which the construction of railways will hereafter be desirable on strategic and military grounds, I am ready to recognise. Were they commenced, however, to-morrow, and carried out under high pressure regardless of expenditure, they could not be completed in time to render them available for military purposes for the next three or four years. It is not upon the commencement of long and costly strategic lines of rail that the resources available for increasing the strength and efficiency of our military power in India can, at the present time, be most advantageously laid out. Nor, so far as I am able to judge, is the Government of India pledged by public engagements, or required on behalf of any urgent interests, to commence and carry out any such lines with all possible expedition. Still less is there any reason which I can recognise for giving to the construction of such lines precedence in the present distribution of our annual expenditure upon public works. On the other hand, the Government of India is most distinctly, publicly, and emphatically bound to lose no time in commencing and completing within the limits of its actual means, the construction of provincial lines of railroad for slow goods traffic on the cheapest possible system. Until the projects necessary for the fulfilment of this engagement have been completely and satisfactorily carried out, no other new projects can be entertained or discussed unless the plea of superior urgency is first established.

20. Of course due provision must be made for the early completion of lines of this character which are now in progress, though the present expenditure upon them should be limited as closely as possible. While all is done that is really necessary to meet the objects for which they were primarily undertaken, it should be borne in mind that they were not designed as lines of commercial traffic, and that the supply of the conveniences required for such a traffic should rather follow than precede its development.

21. Whenever we are called upon to consider, as a practical and pressing question, the immediate construction of strategic lines of railroad not yet commenced, I shall be ready to receive and discuss, without prejudice, all arguments in favour of adopting for such lines, upon military grounds, the broad-gauge system. But no such projects are now before us; nor does it seem probable that they can be brought before us in any practical shape for some years to come.

22. For these reasons I am satisfied that the Government of India, in the prosecution of the objects it is pledged to carry out, should conform its action to the strictest conditions of promptitude, combined with economy; and should watch carefully against the misdirection, either of the ingenuity of its officers, or the resources of the State, to the survey of lines of railroad which have no connexion with the attainment of these objects, and are likely to lead to no present useful results.

23. With reference to the guaranteed railways, which serve as the great arteries of commerce through the country, it should be our object to see that all really needful supplementary works or rolling-stock are provided to meet the growth of the traffic. Beyond this, however, any expenditure that cannot be justified on the general principles laid down in the earlier part of this minute, for the extension of railways, should be jealously challenged. The mere fact that such expenditure may probably be sufficiently covered by the expected return, will not justify the construction of costly lines, if thereby the completion of a greater length of cheaper lines is prevented. It is not possible to lay down any positive rule on such a subject; but the fact should not be lost sight of, that expenditure on guaranteed railways is, in truth, hardly different, in its financial effect on the ways and means of the Government, from expenditure on lines directly carried out by the State, and that the expansion of the former will necessarily cause the contraction of the latter.

24. In the presence of the vast area to which no sort of provision of railway transport has yet been given, it will further be extremely doubtful whether any countenance should be given to carrying out supplementary through lines of communication, as distinguished from those cheap local lines, the immediate provision of which I regard as so important. Without going so far as to reject the idea of some such lines being hereafter expedient, I consider that they should be closely examined if proposed, and that inquiry should be made whether the desired relief of the traffic may not be better provided by means of judiciously designed local lines.

25. The principle that justifies such a course of action is obvious. It is that, by closely limiting the first outlay, the largest possible extension of railways will be obtained in the shortest possible time. By doubling the lines, should the traffic anywhere ultimately require it, or by re-laying them on the broad gauge, should such a course be ever proved essential to carry the trade of the country, all needful relief can be given in the future; with this very great advantage, that the increased outlay will, in all cases, follow the growth of the revenue, and not precede it. The minimum of financial risk will be incurred, while the maximum of practical advantage is secured.

26. To give full effect to the conclusions thus indicated, the early attention of the Financial and Public Works Departments should, as I have already suggested, be given to the matters that properly fall within their respective branches of business; acting, however, in concert, so far as may be necessary for the purpose of framing instructions to all authorities concerned.

27. The Financial Department may usefully call the attention of all the other departments of the Government of India, and of all the local governments, to the paramount importance of giving effect to the policy recently adopted in relation to the protection of the country from the effects of famine. It should reiterate, in clear and emphatic terms, to the authorities concerned, both imperial and local, the cautions already generally stated in the declarations of the Government of India, as regards their several responsibilities; whether in co-operating for the suggestion and practical application of the requisite measures to be taken, or in guarding the many important financial interests directly or indirectly involved in all proposals for expenditure or sanction.

28. Increased attention is also required in the Financial Department to the financial results of all productive public works, and that department should now, in communication with the Public Works Department, consider what steps ought to be taken to secure a full review of the results of all such works, year by year, in a complete and comprehensive shape, such as would be suitable for presentation to Parliament.

29. The consideration of all administrative details in relation to their cost, and a comparison of such cost on various works of like general character, would properly fall within the province of the Public Works Department. On the other hand, a general review of the financial results as a whole, whether in relation to the original cost of the works, the liabilities they involve in the shape of interest charges or otherwise, their aggregate effects in increasing the public revenues or expenditure, or other analogous considerations, would be dealt with in the Financial Department.

30. The extreme importance of constantly keeping in view the actual results of the great financial operations involved in the prosecution of public works in India, whether under guarantee of interest or by the direct expenditure of money by the State, cannot be overrated. It is only by the consideration and comparison of such results that proper economy can be secured, and financial trouble avoided. It will almost invariably be found that it is from the want of attention to this point that embarrassments arise from excess of expenditure over estimates, or from the unthrifty management of works in operation.

31. In such returns promptitude and regularity are more to be sought for, than over-refinement in calculation, which is often of no real value for practical purposes.

32. My attention has been drawn, in relation to this matter, to a Despatch from the Secretary of State (Railway No 119, dated 25th November 1875), in which he gives instructions for the revision of the railway traffic returns, for the purpose to which I have referred. The subject is one which should be reconsidered in connexion with the steps now to be taken; and a joint responsibility should be held to attach to the Financial and Public Works Departments for securing the regular and punctual preparation of whatever returns of this class are eventually held to be requisite.

33. It would fall to the Public Works Department, in dealing with its share of the duties now placed upon it, to point out to the local governments the increased necessity which now exists for greater attention on their part, than has heretofore been given, to the requirements of their provinces as a whole, and to remind them of the fresh responsibilities now thrown upon them; at the same time requiring them, in sending up proposals on behalf of productive public works which require the sanction of the Supreme Government, or the provision of funds outside of the ordinary grants from the revenues of the year, to regard such proposals as parts of a general and connected scheme for satisfying as expeditiously, and as economically, as may be practically possible, the pressing wants of their provinces within the limits of their financial powers.

34. It will further be apparent that the obligations now publicly undertaken by the Government of India as regards, on the one hand, expedition, and on the other hand, economy, in the construction of useful local works, demand from the Public Works Department the severest restraint upon superfluous expenditure in every branch of its administration; and the most careful, intelligent, and well-considered selection of the works recommended to the sanction of the Governor General in Council for the purpose of supplying to the country at large the best means that can be devised for giving it protection from the destructive effects of famine.

LYTTON.

No. 3.

LETTER from the GOVERNMENT OF INDIA, May 2, 1878, No. 186 (Financial).

MY LORD,

WE have the honour to submit for consideration the papers named in the enclosed list, and to solicit your Lordship's approval to the arrangements we have made for delegating to local governments financial responsibility and administrative authority in regard to provincial productive public works, and also to the rules we have framed for permitting local governments to raise provincial loans for the construction of such productive public works.

2. In your Lordship's Despatch marginally noted, reference was made to the construction of a short local line, 30 miles in length, from Hathras to Muttra in the North-western Provinces. That line has since been constructed and opened; a part of its capital cost having been subscribed by natives of the towns and districts in the neighbourhood. A committee of native gentlemen and traders interested in the local traffic have been allowed to participate in the management with much advantage, and the Lieutenant-Governor reports (*see* enclosure to this Despatch) that the new line has been a great boon to the country, and that it has been, so far, a decided financial success, having yielded net earnings during the first complete year's working equal to 4.03 per cent. on its capital cost. The line is on the narrow gauge, its construction was very economical, and it cost little more than Rs. 35,000 per mile in all.

3. In our Despatch noted in the margin, we reported to your Lordship that the local governments of Bengal and the North-western Provinces had taken upon themselves full financial responsibility for productive public works in their respective territories. And in our Despatches Nos. 7 and 78 of the 4th January and 15th February, we submitted to your Lordship our views, which had also been announced in the Legislative Council by his Excellency the Viceroy and our financial colleague, that among the most certain means that could be devised for the prevention or alleviation of famine would be the construction of well considered irrigation works and light railways. Hitherto much of the expenditure on State railways, as will be seen from page 43 of the statement appended to the resolution on the budget estimates of 1878-79, has been incurred upon strategic lines which cannot be remunerative for many years to come, or upon lines in native states which, though of much general and political value, but partially benefit Her Majesty's Indian subjects. We propose for the future, for reasons that will be obvious, to give preference, as far as possible, to projects for productive public works which shall serve as works of famine protection for the British provinces, and for which full financial responsibility is undertaken by the local government of the province to be benefited. In connexion with these matters we desire to draw your Lordship's attention to the minute of the Viceroy, dated the 12th March 1878.

Pages 185 and 233.

Page 4.

4. In accordance with the general policy just described, the Government of the North-western Provinces lately submitted a sketch of the local light railways which might usefully be undertaken in the North-west and Oudh during the next 10 or 15 years. And in view of the need for opening relief works in the districts where very high prices were causing great pressure, the Lieutenant-Governor asked permission to begin at once the earth work on one of his projected railways, namely, the line from Cawnpore to Farrukhabad. The Lieutenant-Governor of Bengal had, as your Lordship is aware, asked permission to begin the line from Patna to Gaya in Behar; and he submitted his views as to the rules and restrictions under which local governments might be entrusted to construct provincial railways, and to raise provincial loans for the purposes of such works.

5. During the autumn of 1877 a committee, consisting of officers from the different provinces of the Bengal Presidency, sat under the Presidentship of the Hon. B. D. Colvin, an experienced civil servant of the North-western Provinces, to consider rules for the construction and administration of provincial productive works. The rules proposed by the committee last year have been reconsidered by the committee in the light of the remarks contained in the Bengal Government letter of the 23rd January 1878 (*see* enclosure 2). And we have now agreed to the issue of the resolution and rules which form enclosures Nos. 8 and 9 of the present Despatch. Those rules provide that, if any local government desires to construct a productive public work, it must first satisfy the Government of India as to the character and financial prospects

of the scheme. If the scheme is accepted—and under your Lordship's orders no such scheme can be accepted until it is sanctioned by Her Majesty's Secretary of State in Council—and if the provincial government undertake financial responsibility for the work, then the construction and management of the work will be delegated entirely to the provincial government, subject only to a general control on the part of the supreme government. We do not propose to relax the orders which require that no work shall be constructed from borrowed funds unless it be shown that the work will be remunerative, or unless that condition shall have been waived for any very special reason, political or other. These orders must necessarily also apply, without any exception, to works aided by grants from the surplus revenues created by the recent special taxation, as to the application of which very specific pledges have been given by our Government.

6. At the same time that we have thus arranged to provincialise the financial responsibility for productive public works, we recognise the desirability of enlisting, in favour of the prosecution of such works, the interest of local capitalists and zemindars. In the case of the Muttra Railway, the capitalists who found part of the funds for the line have taken the greatest interest in its working and its welfare; and, in other cases, we can have no doubt that many administrative and financial difficulties would disappear if the great zemindars and local capitalists of the neighbourhood were directly interested in the construction and successful management of works of local utility. The extent to which loans can be raised in Calcutta and Bombay in the ordinary form is limited, and your Lordship's orders prohibit our seeking to increase the funds at our disposal by aid of loans raised in England. It was reported by some of the provincial governments that local magnates would subscribe from their hoarded funds to strictly local projects, which would directly benefit themselves and their properties, in a way that they would not at present do towards imperial loans raised in Calcutta. In this way, it might be possible to tap a new stratum of Indian capital, and at the same time to educate native capitalists into investing their savings in useful works, instead of hoarding them infructuously. The resolution contained as enclosure No. 3 of the present Despatch contains the rules and forms we have issued, permitting local governments to raise provincial debenture loans for productive works. It will be observed that no such loan can be raised until the project for which the money is required has been examined by the Government of India, and its financial soundness has been admitted.

7. We solicit the sanction of your Lordship in Council to both sets of rules. We would explain that we have provisionally authorised the Governments of Bengal and the North-western Provinces to take action under those rules in the case of the Cawnpore and Farrukhabad Railway, and in the case of the Patna and Gaya Railway. We have done this because relief work was required in the North-western Provinces, and because the Lieutenant-Governor of Bengal has assumed full financial responsibility for, and has satisfied us of, the financial soundness of the Patna-Gaya line, for the execution of which, subject to certain conditions, we had indeed already received your Lordship's authority. The projects for these lines, and for any other lines that may be proposed under these rules, will be submitted to your Lordship in due course, and with full information, from our Public Works Department.

8. Minutes by the Hon. Sir A. Clarke and his Excellency the Viceroy accompany this Despatch.

We have, &c.

LYTTON.

F. P. HAINES.

A. J. ARBUTHNOT.

A. CLARKE.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

A. R. THOMPSON.

Enclosure 1 in No. 3.

RESOLUTION by the GOVERNMENT of the NORTH-WESTERN PROVINCES and OUDH, PUBLIC WORKS DEPARTMENT, November 13, 1877, No. 85.

REVENUE OF MUTTRA-HÁTHRAS LIGHT RAILWAY FOR 1876-77.

Read,—the following Report by Captain W. Shepherd, R.E., Engineer-in-Chief, Light Railways, No. 56 N.-A., dated 11th April 1877, on the revenue of the Muttra-Háthras Light Railway for 1876-77 :—

In reporting on the revenue of the Muttra and Háthras Light Railway during the official year 1876-77, it is not of so much importance to deduce rates at which various departments were worked, because the information cannot be compared with similar facts during the same period for other lines; while the progress statement for the ordinary year 1876 has already been prepared for this purpose.

2. The main results are the features which now require comment, for this shows to what extent the undertaking has prospered, what were its capabilities, and whether it has been a burden on provincial resources or otherwise. It will be seen that the—

	Rs.
Gross receipts have been - - - - -	91,335
The expenditure - - - - -	49,191
And the net balance - - - - -	42,144
Which gives 4·03 per cent. on a capital of - - - - -	10,45,000

3. The value of stores on hand is heavy (viz., Rs. 51,027); this is due solely to the surplus stock of sleepers, rails, &c., which may be gradually reduced one half, and will be paid for by revenue, effecting a reduction of Rs. 12,000. Some water columns, cranes, iron pipes, &c. of the value of Rs. 8,000, might be sold to the State railway for use in the extensions from Ajmere. The locomotive duplicates, which must be kept, are valued at Rs. 5,265.

4. Considering that the Muttra and Háthras Light Railway has not been open 18 months, a return of 4·03 per cent. is satisfactory, from the assurance to Government on the score of the light railway, which need now be no longer considered experimental.

5. The noticeable point is the low rate of receipts (Rs. 60·5 per mile per week throughout the year) with which the above per-centage has been earned, notwithstanding the short length managed and the distance the line is situated both from the sea coast and from the coal mines. This result is owing to the moderate capital laid out, and to the economy of working with native labour.

6. The burden to a line which has to bring its coal from a distance will be understood when it is seen that the cost of coal was two-ninths of the whole working expenditure, while carriage made up five sixths of the price of coal delivered on to this railway.

7. It is as well to point out that there have been no payments to revenue on construction account, an item which often materially assists the revenue of a new line; the earnings have been entirely from the public, with the exception of Rs. 654-1-0 from Military Department, Rs. 747-11-0 from Commissariat, Rs. 290-3-0 from Irrigation Department.

8. On the other hand, besides all maintenance, much necessary work has been done for the first time, and charged to revenue, which on other lines would have been unhesitatingly classed as capital expenditure. Mindful of the policy of this Government, revenue has been debited with petty works and those of a temporary nature, and capital has been saved an equal amount. The line is at present in fair order, and the stock of ballast, collected during 1876-77, is equal to present requirements over the greater portion of the length.

9. The passenger traffic for the five months, November to March, during which comparison can be made with 1875-76, shows an improvement of Rs. 4,420, or 18 per cent.; but goods, as might have been anticipated, have improved in a better proportion, i.e., a total advance of Rs. 3,648, or 46 per cent.

10. The Muttra and Háthras Light Railway has thus early in its life obtained an assured position; unless from unforeseen causes the debt of accumulated interest will be cleared off in a few years, and a rate of interest constantly better than the guarantee may be hereafter divided. If, however, extensions are made, more especially to Bhartpur, the Muttra and Háthras Railway shares will become a property to be valued even by native holders.

11. The registered goods traffic between Rajputana and the Oudh and Rohilkhand Railway, via Aligarh, during 1876, would alone have added Rs. 45,000 to the earnings had a junction been effected at Bhartpur.

12. If this experiment is deemed successful, the North-western Provinces' Government need have no hesitation in starting the other railways of this class which have been recommended to it, keeping the greater portion of the capital in their own hands, but raising enough in the local market, on the same terms as before, to secure local interest.

13. The small number of accidents and the absence of even injury to any human being throughout the year is a matter for congratulation.

14. The European staff of the line deserve credit for much of the good results recorded above.

15. The monthly accounts have reached head-quarters with laudable punctuality.

RESOLUTION.—The Lieutenant-Governor considers the progress and working of this railway during the past official year satisfactory, inasmuch as—

- i. The development of traffic, specially so far as goods are concerned, has been steady.
- ii. The experiment of utilising native skilled labour has succeeded beyond expectation.
- iii. This short line of railway, although only in its second financial working year, has fully paid its guaranteed interest, and gives promise of larger returns.
- iv. No accident accompanied by loss of life or limb or any other serious injury has occurred on the line, especially exposed to danger by reason of its running for great lengths along a pukka road.

The Lieutenant-Governor is accordingly pleased to commend the officers on whom devolved the maintenance and working of the line.

2. His Honour is of opinion that the stores account of this railway, which is an unduly large one, should be reduced, but that care should be taken not to dispose of any plant, &c. which may hereafter be requisite for utilisation on the proposed extensions of the railway line.

3. Sir George Couper admits that traffic on this line of railway is so far expanding as to necessitate the increase of rolling stock, but defers considering this question till the native gentlemen, who with others form the directorate of the railway, and whose opinions have heretofore been found so great an aid to the administration of the line, have been consulted as to what extent additional rolling stock from capital account is required.

Enclosure 2 in No. 3.

SECRETARY TO THE GOVERNMENT OF BENGAL to the SECRETARY TO THE GOVERNMENT OF INDIA, January 23, 1878.

REFERRING to the Bengal Government letter No. 66C. of 9th February last, regarding the proposed Patna and Gaya Railway, I am directed by the Lieutenant-Governor to submit, for the early consideration of the Government of India, that very great inconvenience arises from the delay that has taken place in replying to the proposals contained in that letter, and more particularly that it is impossible that the provincial budget can be settled until some decision is come to on the subject.

2. In order to facilitate the early settlement of this matter, and to clear the ground in relation to other railway projects in contemplation, the Lieutenant-Governor thinks it may be convenient if he now states, somewhat in detail, his views on the relations that should exist between the Government of India and the local government in the control of the State railways in the province.

3. Admitting the ultimate financial responsibility of the Government of India for all large expenditure, the Lieutenant-Governor considers that it is obviously essential for that government to possess full control over such expenditure, and that, therefore, it is necessary to retain the rule under which all projects for new railways must be submitted for the sanction of the Government of India and Her Majesty's Secretary of State.

4. It is also necessary that all projects for railways should be prepared in complete detail before their execution is sanctioned or begun. The plans and estimates should therefore, in the first instance, be submitted to the scrutiny of the consulting engineer to the Government of India for State railways; a copy of that officer's note on each project should then be submitted, with a general abstract of the estimate, to the Government of India for sanction, together with a statement of the traffic expected and proof of the probable commercial success of the undertaking. The consideration of the projects by the officers of the Government of India might, in the opinion of the Lieutenant-Governor, most advantageously be given in personal communication with the engineers of the local government, and it is, therefore, suggested that the consulting engineer to the Government of India should, when occasion required, be deputed to Calcutta for the purpose in view. Further, it is desirable that his report should be of a nature that should supply complete evidence of his being satisfied with the designs and estimates after a personal examination of the line if he thinks it requisite, and that any necessary modifications should be made by the local engineers on his advice, so that the project and estimate may finally go before the Government of India in a state in which it may be regarded as conveying the professional approval of the responsible officers of both Governments.

5. To enable the local government to arrange a proper programme of railway construction, it is above all things desirable that the amount annually at its disposal, for expenditure on such works, should be nearly uniform, and that the Government of India should, if possible, fix the annual grants to be made from the extraordinary revenue or loan funds for a term of four or five years in advance, it being of course understood that the Government of India will be free to revise the grants at any time if any real necessity for doing so should arise.

6. The Lieutenant-Governor considers that it is scarcely too much to say that the success of his provincial management depends mainly on this point, as it is impossible for a local government to arrange for the economical prosecution of railway construction, if the funds at its disposal are to vary considerably year by year, or to be subject to sudden reduction in the middle of a work; for it must be borne in mind that, in railways essentially, economical construction can only be secured by such rapidity of completion as will enable the work to commence earning revenue at the earliest practicable date, and will keep the charges for construction establishment at a minimum.

7. The local government should, at the same time, endeavour to supplement the funds placed at its disposal by the Government of India, by local loans raised for particular railways on terms approved by the Government of India; and the Lieutenant-Governor considers that those railways for which a large portion of the capital is provided locally, on the principle of a guaranteed interest and a share

of surplus profits, should ordinarily take precedence of other lines in respect to date of assignment of funds. But no reduction in the regular imperial grant should be made in consequence of such local loans; otherwise no money would be raised in that way.

8. The importance of uniformity of practice in railway construction in the several provinces of the empire is fully recognised, and, in order to ensure this, it is necessary that the Government of India should decide all questions of gauge of line, and should also lay down certain fixed rules regarding maxima and minima, fixed and moving dimensions, loads, &c., which must be adopted on all railways in the country. Orders on these or any other necessary point should be given by the Government of India when giving preliminary sanction to any project, after which there should be no interference with the action of the local government in carrying out the surveys or designs for the works, or the details of construction, otherwise than is necessary to comply with the conditions referred to in paragraph 4 of this letter, although inspections should be made while the works are in progress by the consulting engineer to the Government of India for State railways, which would always be welcome.

9. In regard to the supply of stores from England for provincial railways, it may possibly be necessary to adhere to the existing procedure of sending all indents through the director of State railway stores for submission, through the Government of India, to Her Majesty's Secretary of State; but the Lieutenant-Governor is disposed to think that time would be saved and greater economy secured, without any real loss of essential securities against incautious action, if the provincial indents were sent direct to the Secretary of State, copies going to the Government of India for information, and any other precautions thought requisite being taken to give proof that the demands were in conformity with the sanctioned designs, and that needful financial requirements were complied with. He would also suggest that the Secretary of State might be asked to consider the propriety of establishing for the State railways a home agency for railways separated from the Store Department of the India Office, and analogous to the London boards of the guaranteed railways. He believes that such a measure would be conducive to efficiency and economy, and he is of opinion that there can be no doubt that the present system of supplying stores and machinery has not for some cause or other worked well.

10. It is necessary for the local government to have a reserve store of English materials commonly in use to meet any sudden emergency, instead of being dependent on the Government of India's reserve alone, which might, at the moment, either be out of the particular article required, or be compelled to issue it to another line; but in order to avoid any extra establishment, this reserve should be in the hands of the most central of the railways in the province, whence issues could be readily made to any line requiring them.

11. The Lieutenant-Governor is further of opinion that, in the interests of the public safety, before a railway is opened for public traffic, it should be carefully inspected by an independent officer. When a provincial line, therefore, is ready for inspection, the local government will inform the Government of India, and at the same time issue orders for the inspection by one of its own officers, or, if necessary, ask the Government of India to depute an officer for the purpose; the inspecting officer's report will be submitted by him to the local government, which will then issue orders either for opening the line for public traffic, or for the construction of any works considered necessary by the inspecting officer previous to the opening, as the case may be; a copy of the report, and of the orders passed on it, being forwarded to the Government of India for information.

12. Similarly in all cases of serious accidents it is desirable that an investigation should be made by an officer not connected with the particular line in question, and, as promptness is very necessary on such occasions, it should be the duty of the local government to arrange immediately for this investigation on any accident being reported, and it should be the duty of the manager of the railway to report any such accident immediately by telegraph to the railway department of the local government.

13. Shortly before a railway is ready for opening in any part, the engineer-in-chief should submit to the director, for the orders of the local government, his proposals for the revenue establishment required. These proposals will, as regards all appointments carrying a salary above Rs. 250 a month, be referred to the Government of India for sanction, all minor appointments being dealt with by the local government; a schedule of the establishment as sanctioned being forwarded to the Government of India for information.

14. The higher appointments in the revenue branch of the State railway establishment will be but few, and it may possibly be desirable that they should all be placed on a general imperial list for promotion; but in no case should an officer be transferred from one province to another without the consent of the local government.

15. It is not indeed essential to keep up such a list, as the salaries of all these appointments are made incremental in each grade, so that it is only the question of a transfer from one grade to another that requires consideration, and it is probably better that every such case should be treated on its own merits, rather than that the element of seniority should be introduced into this branch of the service at all.

16. The Lieutenant-Governor considers that, when once the salaries of the several appointments have been sanctioned by the Government of India, the local government should be empowered to make the appointments, in fact that appointments to the revenue establishment of State railways should be made under similar rules to those in force in other civil departments; but in case the local government is not in a position to appoint any qualified person for some of the situations, such as a traffic or a locomotive superintendent, the Government of India should be requested to apply to Her Majesty's Secretary of State for the appointment from England of an official thoroughly conversant with the work required.

17. The Lieutenant-Governor likewise would desire to see a rule established under which all the working staff of the provincial railways, with very few exceptions in the highest grades or in the posts filled by officers of the regular Public Works Department, should be engaged for a term of years only, at the expiry of which they would have no claim to re-appointment, and should be distinctly made to understand that they could acquire no claims to pension or gratuities by their service, unless under the terms of a special agreement. The financial and administrative importance of such a rule appears to be very great, and either a provident fund, somewhat on the principle of the one established on the East Indian Railway, might be introduced in place of pension or gratuity on retirement, or an arrangement made similar to that under which pensions are granted to persons employed under municipal bodies, the provincial government being responsible for the payment of such pensions.

18. The local government should be empowered to deal with the tariff of rates and fares at its own discretion, subject, however, to such control on the part of the Government of India as to enable that government to direct the cheap transport of food grains, or of the staple produce of the country and the running of cheap passenger trains; as well as to ensure the convenience of the public in the matter of through booking with other lines of railway.

19. The local government should also be at liberty to adopt either the system of mileage rates or of station to station rates as may seem to it most desirable for each particular railway.

20. In the case of railways constructed wholly or partially from funds locally subscribed, it will be desirable, in order to make the railways more popular, and induce a more general feeling of interest in their success, to nominate one or more subscribers to form a board of management with the engineer-in-chief or manager as chairman; care being taken to select men interested in the trade of the district through which the line passes.

21. There should also be half-yearly general meetings of subscribers, at which a report by the board of management of the proceedings of the previous half-year should be read, and the accounts produced, when, if any profits have been earned in excess of the guaranteed interest, a dividend in accordance would be declared.

22. As the local government is now responsible for the financial results of the provincial railways, and has to make good to the Government of India the interest on all "extraordinary" capital advanced by that government, the Lieutenant-Governor considers that the revenue budget estimates should be dealt with by the local government in the Financial and Revenue Departments, a copy of the estimates, and of the orders passed on them, being furnished to the Government of India for information.

23. The capital budget estimates should, as now, be submitted to the Government of India, in order to enable that government to review the proposals of the local government for the year; but the local government should have the power to transfer any portion of the grants from one provincial railway to another, or from any one main head to any other, reporting the circumstance for the information of the Government of India. The accounts both of capital and revenue would, of course, be prepared in the forms prescribed for general adoption, and all needful traffic and other statistical returns would be furnished as required.

24. The Lieutenant-Governor considers also that the engineer and upper subordinate establishment of the State railways in the province should be made provincial, in the same way that the Public Works Department establishment employed in the provincial or irrigation branches is provincial.

25. I am to request very early attention to the important subjects treated in this letter, as many months have now elapsed since the transfer of the railways to the local government was arranged, and no orders have as yet been received from the Public Works Department. I am also to request that the principles suggested may at once be rendered applicable to the further progress of the Patna and Gaya Railway, the execution of which has so long been under discussion.

Enclosure 3 in No. 3.

RESOLUTION by the GOVERNMENT OF INDIA, FINANCIAL DEPARTMENT, March 15, 1878.

READ again the following Proceedings relating to the construction of the Muttra and Hathrás and Gházipur and Dildárnagar Railways, in part, by means of Local Loans:—

In the Public Works Department;—State Railways, Nos. 13-24, for March 1874.

In the Financial Department;—Abstracts, October 1876, Nos. 93-103, and December 1876, No. 19.

Read—

Resolution No. 1072, dated 20th February 1878, paras. 6 and 7.

Letters from the Government of Bengal in the Public Works Department, No. 006 R, dated 12th December 1877, and No. 013 R, dated 11th January 1878, inquiring upon what conditions the Government of Bengal is at liberty to raise local loans for railways.

Dockets from the Public Works Department, Nos. 663 R and 666 R, dated 13th February, communicating orders issued in that department to the Government of Bengal, regarding the construction of a light railway between Patna and Gaya, and to the Government of the North-western Provinces regarding the construction of a light railway between Cawnpore and Farrukhabád.

RESOLUTION.—The Governor-General in Council deems it expedient now to prescribe, for general information and guidance, the following rules and conditions under which provincial debenture loans

may be raised by local governments for works of material improvement, the interest on which loans will be paid from provincial resources :—

I.—No loan shall be raised by any local government or administration except with the sanction of the Government of India in the Financial Department, which sanction shall extend as well to the amount and conditions of the loan as to the purpose of material improvement for which it is raised.

II.—Notifications inviting tenders for provincial debenture loans shall be in the form annexed to these rules, or as nearly so as the circumstances permit.

III.—The rate of fixed yearly interest to be paid upon provincial debenture loans will be determined by the Government of India from time to time. For the present, this rate shall be 4 per cent. ; if in any particular case a loan cannot be raised at par at this rate, then, with the special sanction of the Governor-General in Council, subscriptions may be received at a discount which shall be charged off in the accounts at once, under the head of "Interest upon Funded and Unfunded Debt" (provincial section), and debited to provincial revenues.

IV.—The interest on provincial debenture loans will be payable half-yearly on dates of the calendar to be fixed by the local government, at any principal treasury or branch of the Presidency Bank at which the Government account is kept, in or near the districts in which it is proposed to construct the work for which the loan is raised : provided that interest on provincial debenture loans shall not be paid at the head offices of the presidency banks of Bengal and Bombay, or at any Government treasury within 100 miles from either of the said head offices.

V.—Interest on provincial debenture loans, together with the additional payments dependent on the surplus profits as herein-after described, shall be recorded in the imperial accounts under the head of "1, Interest on Funded and Unfunded Debt" (provincial section), all transactions relating to the capital of the loans themselves being recorded in the same accounts under the heads of public debt incurred or discharged.

VI.—Provincial debenture loans will be part of the registered public debt, and the debentures themselves part of the public securities of the State, the business connected with which is managed and transacted by the presidency banks under the agreements made with them. The presidency banks will be responsible, under their agreements, for the management of these debenture loans, and will be remunerated therefor in the same way as for the management of the rest of the registered public debt and securities.

VII.—The local government shall publish in the "Local Government Gazette," as soon after the close of the year as possible, a *pro forma* account of the capital, showing how it has been supplied, the gross earnings, working expenses, and net revenue, for each successive year ending 31st March, of each work for the construction of which a provincial debenture loan is raised. From the net revenue so calculated, interest as follows shall be deducted as a first charge :—

(1.) One year's interest payable upon the loan.

(2.) Four and a half per cent. upon the amount of capital supplied by the Government.

The surplus, if any, may be made available for rateable division between the Government and the debenture holders as herein-after explained.

In other respects the local government shall prepare this account in the manner in use for the capital and revenue accounts of other State canals or railways, with any modifications of detail which it may from time to time deem necessary in order to make a true calculation of the profit or loss upon the work during the year. This account and the declaration of the amount of surplus shall be signed by a secretary to the local government and by the local accountant general.

VIII.—No debenture-holder shall have any property in any work constructed by means of a provincial debenture loan, or be entitled to call for or examine any account or voucher, or challenge the construction of the account prescribed by Rule VII. or any entry made therein or declaration promulgated thereupon by the local government. It shall also be an essential condition of all loans that any addition to the work or to the machinery, rolling stock or other appurtenances thereof, which in the opinion of the local government is required to provide for the efficient use of the work, or to meet increased traffic, may be provided by additions to the capital at the sole discretion of the local government.

IX.—The local government will be authorised to offer to holders of debentures in such provincial loans, besides the fixed interest due upon the debentures, such share of the surplus referred to in Rule VII. as shall be stated in the notification inviting tenders for the loan. In general, the part of the surplus offered for distribution (which might be one half or other proportion) would be divided rateably between the Government and the debenture-holders, the Government sharing in proportion to the capital supplied by it, and each debenture-holder according to the amount of his debenture. The part of the surplus due to debenture holders should be payable with the first instalment of fixed interest due on the debentures, after the publication in the local Gazette of the account prescribed by Rule VII.

X.—Debentures issued under these rules shall be in the form hereto annexed, and shall be for Rs. 100 or any multiple thereof. The rules which govern the transfer, consolidation, division or renewal of promissory notes of the Government of India, and the transfer of the place of payment of interest thereon, shall apply to debentures issued under these rules, except that these debentures shall not be encased for the payment of the interest thereon elsewhere than at the particular treasuries or branch banks named in them.

XI.—The local government shall reserve the right of liquidating every provincial debenture loan raised under these rules, or any part thereof, at any date not less than 10 years from the date of the loan, on giving three calendar months' notice. In such case each debenture-holder shall be entitled to receive either the amount named in his debenture, or, at his option, such a sum as would, if it were invested at the date fixed for the discharge of the loan in promissory notes of one of the 4 per

cent. loans of the Government of India, yield interest equal to the average amount including the fixed interest and share of surplus which has accrued due upon his debenture during the six half-years last preceding the date of the notice of discharge.

XII.—Provincial debenture loans may be raised in order to repay to the imperial treasury or the local government the cost of any work already constructed by means of funds supplied from the imperial treasury, or, as the case may be, from provincial resources.

Enclosure 4 in No. 3.

The SECRETARY TO THE GOVERNMENT OF INDIA to the SECRETARY TO THE GOVERNMENT OF
NORTH-WESTERN PROVINCES
BENGAL, March 15, 1878.

WITH reference to the paper marginally noted, I am directed to forward copy of a resolution (with form of notification and form of loan debenture), prescribing the procedure under which local governments may raise provincial loans for the construction of provincial productive public works. The North-Western Provinces Government is authorised to take action under these orders, pending receipt of the confirmation of Her Majesty's Secretary of State to the rules.

2. In the course of the coming week orders will be issued from the Public Works Department of the Government of India laying down the rules under which projects for provincial productive public works can be undertaken by local governments. Any such project will have to be submitted to and approved by the Government of India, under Rule I. of the present orders, before any provincial debenture loan is opened.

Enclosure 5 in No. 3.

MINUTE by the VICEROY, August 3, 1877.

FOR reasons which were fully explained by Sir John Strachey in his last financial statement, the Government of India resolved to extend very largely the system inaugurated some years ago by Lord Mayo, and to give to the local governments greatly increased powers and responsibilities.

Among the changes that were made, one of the most important was the transfer to local governments of the obligation of meeting present and future charges on account of extraordinary public works of provincial and local utility.

This obligation fell with peculiar weight upon Bengal, and, in order to enable the local government to discharge its responsibilities towards the imperial treasury, new taxation to the extent of about 300,000*l.* a year has been imposed upon the province. Similar, although less onerous, burdens have been, or will be, placed on other local governments.

One of the main reasons for adopting this new policy was the belief that we should obtain greatly increased efficiency and economy of administration by giving to the local governments a direct inducement to good management, and allowing them to share in any improvement of their revenues. This was true in respect of all the services transferred, and it was especially true in respect of the canals and railways. While the Government of India must always retain in its own hands full powers of general control, the policy which has been laid down cannot be carried out, unless very wide discretion in regard to all matters of detail be left to the local governments. In regard to the management of the excise, stamps, and the other important services under the control of the Financial Department, arrangements have been already made to the complete satisfaction both of the supreme and local governments, and it is believed that there is no single point on which both parties are not completely in accord. Many important matters remain, however, to be settled in regard to the details of the future management of the provincial railways and canals, for the maintenance and completion of which the local governments have been made responsible. I am therefore extremely anxious that some amicable arrangement may, as soon as possible, be arrived at, by which the supervision of the supreme government may be satisfactorily maintained, without unnecessarily interfering with the liberty of action which it is essential that the local governments should possess. With this object I propose to invite the governments of the North-western Provinces, Bengal, and the Punjab, to send delegates to Simla with the least possible delay, and I shall be much obliged if my honourable colleague, Sir A. Clarke, will be good enough to nominate three officers of his department, who, associated with these delegates, will form a committee for the purpose of advising the Government as to the measures to be adopted.

I propose that Mr. Bazett Colvin, who took an active part in settling the new financial arrangements with the North-western Provinces and Bengal, should act as president of the committee.

I have heard from Mr. Eden and Sir G. Couper, with whom I have communicated semi-officially on the subject, that they propose to nominate Major Stanton, R.E., and Colonel Fraser, R.E., respectively.

Sir A. Clarke will probably think it desirable to nominate, on behalf of the Public Works Department of the Government of India, officers possessing special knowledge of railway, irrigation, and accounts business. It does not seem necessary to add to the committee an officer of the Financial Department; but, if questions should arise rendering a reference to that department desirable, Mr. Colvin will be authorised to make them.

He will also be at liberty to call for any information which the committee may require from any other department of the Government. The report of the committee will be submitted to me by the president.

Copies of this minute will be sent demi-officially by my private secretary to the local governments concerned, to the several departments of the Government of India, and to Mr. Colvin. I shall be obliged if Mr. Colvin, after he has ascertained Sir Andrew Clarke's wishes on the subject, would communicate with the local governments, so that the committee may assemble at Simla with the least possible delay.

Enclosure 6 in No. 3.

REPORT of the PROCEEDINGS of a COMMITTEE assembled under the Instructions contained in His Excellency the Viceroy's Minute, dated 3rd August 1877, for the purpose of considering certain Administrative Details relating to the future Management of Provincial Railways and Canals.

THE class of works with which the committee understand that they have to deal are those described in paragraph 17 of Government of India, Financial Department, letter to the Government, North-western Provinces, No. 43, dated 17th April 1877, viz., works constructed primarily for the benefit of districts or places within the limits of a local government or administration.

In order to adapt the existing rules of the Public Works Department to the enlarged powers and responsibilities which have been made over to the local governments for the construction and management of such works, the committee recommend that the modifications detailed below be made in those rules.

It should be premised that, in their recommendations, the committee intend the words "local government" to include a local administration, and that in speaking of public works they adopt the classification which they believe to be already recognised. Under this classification it is understood that railways and canals are termed "imperial" when the interest on the capital is provided from imperial sources; that they are called "provincial" when the capital is provided, either in whole or part, by the Imperial Government from extraordinary funds, and when the interest is paid from provincial resources; and that by "local" railways and canals are meant those for which the capital is wholly provided from local resources, or from local resources supplemented only by grants-in-aid.

The modifications which the committee propose are as follows :—

- I. (1.) *Estimates*.—The design and execution of all projects which are not estimated to exceed 10 lakhs of rupees in cost, and which are undertaken with funds obtained from ordinary revenue, or with money the whole of which is borrowed locally under the sanction of the Financial Department, should be entrusted to local governments. In such cases the local government should sanction the detailed estimates for the projects without any reference to the Government of India beyond the usual report of sanction for information.
- (2.) It must be explained, however, that this extension of powers is not intended in the least to diminish the necessity for such estimates being prepared and sanctioned before the work is undertaken.
- (3.) All projects, whatever their cost may be, which it is proposed to carry out from extraordinary funds borrowed through the Government of India, and all projects which are expected to cost more than 10 lakhs of rupees, as well as all schemes for railways, ought to be submitted, as heretofore, to the Government of India; but, in the case of local railways, the project need not be accompanied by detailed estimates or engineering detail of any sort. After approval of any such project or scheme by the Government of India, the local government should have power to modify the details of the works under any minor or sub-head of account or component part within the amount sanctioned for that head or part, and also to apply savings under one head to another, in accordance with existing rules; provided that such modifications do not in any way involve the alteration of other parts of the project or affect the efficiency or stability of the whole work. If the modification is likely to lead to any such result, it will be desirable that the local government should consult the Government of India before carrying out the proposed change.
- II. (1.) *Budget Allotments*.—It has been declared by the Government of India, in its Financial Department letter No. 43, dated 17th April 1877, to the Government, North-western Provinces, that it must rest with the Supreme Government to determine how much loan money it can place at the disposal of a local government for the construction of works undertaken primarily for provincial benefit; that the amounts which it is expedient to borrow for the whole of India, in each year, must be determined by general considerations; and that the Imperial Government cannot promise absolutely to supply a fixed sum to any local government for a succession of years. The committee are aware that it is not within their province to attempt to lay down any rules upon this subject. They wish to record their opinion, however, that it is of very great importance to the successful working of the new system that, as far as possible, the supply of funds should be certain and continuous. With this object, local governments should be warned to make careful forecasts of their future requirements, so that the Government of India may either make arrangements for complying with them, or, in the event of its not being able to do so, may give to them timely warning of its inability. Unless careful precautions are taken against the sudden and unforeseen failure of funds, it will be impossible for local governments to manage their works economically.

- (2.) The yearly grants for capital outlay on each work that is to be constructed from loan funds which have been raised wholly through the Imperial Government must necessarily be fixed by the Government of India, on a consideration of the requirements of the several works, and of the total grant of the year for the whole of India.
- (3.) The committee are of opinion that, after such allotments have been made for the year and assigned to the different projects, local governments should be free to re-appropriate grants, except those which the Government of India may have excepted on receipt of the budget, from one sanctioned project to another, provided that the project to which it is transferred be a work of the same class as that from which it is taken (*e.g.*, money should be transferable from one railway to another, or from one canal to another); but in such case immediate report should be made to the Government of India, for its information only.

III. *Assignments*.—In the case of its being found necessary by the Government of India to reduce the total grant during any year, the local government should have power to distribute the total reduction over any of the works in progress, other than those which, as stated in the last paragraph, may have been specially excepted by the Government of India.

IV. *Accounts*.—The committee are not prepared to recommend any change in respect of these.

V. (1.) *Establishments (Executive)*.—The permanent engineer establishment of the Public Works Department in each province should be fixed at the minimum needed for its normal requirements. The Government of India would make all first appointments to the permanent engineer, superior store, and upper subordinate establishments; and the local government will make all promotions both in the engineer and subordinate establishments.

(2.) Any establishments for the construction of provincial works which are required in excess of the minimum mentioned above, must be entertained temporarily, by the provincial government or by the Government of India, as may be convenient, subject to the rules laid down in Financial Department Resolution No. 1709, dated 22nd March 1877.

(3.) The establishments of engineers, upper subordinates, storekeepers, &c., required for the construction of provincial railways, should, as in the case of irrigation works, be made provincial, provided that the local government has the means, whether by fixed yearly imperial grant or otherwise, of retaining their services. But such establishments as will be set free on the completion of a work, from want of further occupation in the province, and will consequently be thrown back upon the hands of the Government of India, must remain continuously on the imperial list.

(4.) The local government should have the power, within certain limits to be fixed by the Government of India, of creating or abolishing divisions or circles of superintendence, and of altering their limits; and if, under the circumstances described in the last paragraph, the engineer establishment for constructing provincial railways is made provincial, it should also be in its power to decide whether or not to amalgamate the establishment employed on railways with that employed on canals and general provincial works. This will obviate the inconvenience of having several small establishments, and will enable a better selection to be made of qualified officers for particular posts.

(5.) The superior revenue establishment of provincial railways ought to remain imperial. Appointments to the sanctioned working establishment of open lines, on salaries not exceeding Rs. 250 monthly, will not require the orders of the Government of India; but no class or grade of officers on the revenue establishment, other than those recognised on State railways under the Government of India, should be created without permission from the Government of India. That Government will no doubt be prepared to consider proposals for modifications of, or departures from them, on good cause being shown.

(6.) The promotion of all railway officers and subordinates borne on the imperial list, but employed provincially, will be made by the Government of India upon the recommendation of the local governments; but in all other respects this establishment, while employed under the orders of the local government, should be treated as provincial establishment, and neither first postings, nor transfer to or from the province, should be made by the Government of India without first consulting the local government.

(7.) In the case of local railways, the establishments required, both for constructing and working them, should belong altogether to the local government, and be placed entirely under its orders.

(8.) *Establishments (Accounts)*.—The relation of the officers of account to the local government was discussed by the committee. Under the present rules the whole of these officers in the Public Works Department are, as regards appointments and promotion, one body under the direct orders of the Government of India; but the examiner of accounts is intended to be an assistant to the local government in all matters affecting accounts and financial requirements. It is believed that full effect is given to this intention in some provinces, and it seems advisable that this rule should be universally acted upon, and that the examiner of accounts should not merely be consulted, but should be constituted and treated as a responsible adviser and guide in these respects. In consideration of this, it is recommended that, although the deputies and assistants should remain, as heretofore, under the orders of Government of India, the examiners should not be transferable from under the orders of local government without their sanction.

(9.) The committee also think that, when the local government desires it, there should be only one officer of the Accounts Department of a province in communication with the Account-

tant General, Public Works Department, in respect of each class of works, such as railways, canals, &c. It is understood that this alteration can be made without inconvenience.

- VI. (1.) *Administration (Canals).*—The occupiers' and owners' rates for the use of canal water, when first introduced, should not be fixed without the sanction of the Government of India; nor should they be subsequently enhanced without similar sanction. All canal rates, other than those above specified, may be left entirely at the discretion of the local government.
- (2.) *Administration (Railways).*—In through-booking arrangements, as well as in other matters affecting guaranteed railways, which may arise in connexion with any provincial and local lines, the provincial government should communicate with the local consulting engineer for guaranteed railways.
- (3.) The expenses of direction should be charged rateably to the several lines in a province; and these lines should bear their share of the expenses of the consulting engineer for State railways, the director of stores, and the port storekeeper, as well as of the general charges debited to State railways by the India Office. They ought also to continue to bear their share of losses of stores at sea.
- (4.) The type-plans and standard dimensions of the Government of India should be adopted on all State railways.
- (5.) Previous to opening a line for public traffic, and in case of serious accidents on an open line, inspections should be made, in accordance with the general instructions prescribed by the Supreme Government, by officers independent of the Provincial Railway Department and appointed by the Government of India. Their reports should first be submitted to the local government, and be forwarded to the Government of India for information, with copy of the orders passed. It will thus rest with the local government to authorise the opening of a provincial line, on the report of the inspecting officer.
- (6.) All control of details, such as train-service, rates of fares, &c., connected with the working and management of the provincial railways, should be vested in the local government, subject to such general principles as may be laid down, from time to time, by the Government of India. It is not expedient to fetter the local governments in the details of these arrangements; but it is desirable that the general system of classification, rates, and fares in force on State railways should not be radically departed from without previous reference to the Government of India.
- (7.) The following station-to-station fares and rates are recommended, for the present, as maxima :—
- | | | | | | | |
|--------------------|---|---|---|---|---|-------------------------|
| Coaching—1st class | - | - | - | - | - | 12 annas per passenger. |
| 2nd „ | - | - | - | - | - | 6 „ „ |
| 3rd „ | - | - | - | - | - | 2 „ „ |
| 4th „ | - | - | - | - | - | 1½ „ „ |
| Goods—3rd „ | - | - | - | - | - | 8 pies per maund. |
| 2nd „ | - | - | - | - | - | 6 „ „ |
| 1st „ | - | - | - | - | - | 4 „ „ |
- (8.) The usual half-yearly authorisation lists of establishments, together with the working estimates of the provincial lines open for traffic, should be dealt with by the local government.
- (9.) No local government should have power to close any line of railway without first obtaining permission from the Government of India.
- (10.) Provincial and local railways should be bound to perform all customary services for other departments, on the same conditions as State railways now perform them.

General.—The committee think it highly desirable that no time should be lost in making such changes in the Public Works Code as may be necessary to adapt it to their recommendations, so far as these may be approved of; and that opportunity be taken, at the same time, to make the other modifications in the present Code which are called for by the great extension of power which has been granted to provincial governments since 1870. The alteration of practice which was contemplated when those powers were enlarged, is not, in their opinion, sufficiently recognized by the existing rules of the Public Works Department; and, until those rules are amended so as to concede greater authority to local governments, they will not possess that absolute financial control over their expenditure, both in constructing and working railways and canals, which their increased responsibilities demand. In these changes, and in all future questions which may come up for consideration, the point which has been laid down for the guidance of the committee will need to be kept in sight, viz., that, whilst the Government of India must always reserve to itself the control in questions of general principle, it can scarcely concede too large and liberal a discretion in matters of detail to the subordinate administrations.

BAZETT W. COLVIN.
A. FRASER.
E. C. S. WILLIAMS.
J. J. McL. INNES.
H. A. BROWNLOW.
F. S. STANTON.
R. HOME.

Enclosure 7 in No. 3.

Mr. B. W. COLVIN to the PRIVATE SECRETARY to the VICEROY, 7th March 1878.

WITH reference to the instructions conveyed in the letter of the Public Works Department, No. 259E-G., dated 15th February 1878, I have the honour to state that the members now in Calcutta* of the committee which was convened in compliance with the orders contained in his Excellency the Viceroy's minute of August 3rd, 1877, have re-assembled, and to submit the following report of the conclusions come to by them, after considering those points in the letter from the Government of Bengal to the Government of India, Public Works Department, No. 024R., dated 23rd January 1878, which came within the scope of the instructions originally given to the committee.

2. The suggestions made in the letter of the Government of Bengal above quoted, which appeared to the committee to fall within the limits of those instructions, are contained in paragraphs 4, 7 to 19, 22 and 23. Taking these suggestions in order as they stand, the recommendations which the members of the present committee concur in making are as follow :—

3. Paragraph 4.—*Scrutiny of railway designs and estimates.*—The committee are of opinion that the mode of procedure recommended would be the best to adopt, with this alteration only, that the plans and abstract estimates of the works comprising the project should be submitted, instead of a general abstract only of the estimate. The latter gives only the total outlay under certain main heads of accounts, and does not admit of any idea being formed of the nature and character of the line or of the works upon it.

4. Paragraph 7.—*Assignment of funds.*—The committee concur in the suggestion that projects for which any considerable portion of the capital has been provided locally should have a preference in the assignment of funds. They think, however, that this preference should not extend to projects until they have been entered in the budget.

5. Paragraph 8.—*Railway construction.*—The recommendations contained in this paragraph are in accordance with the views expressed in the committee's former report; and the only change that they would make in the proposals of the Bengal Government is, that all questions of *standard* as well as of *gauge* should be reserved for the decision of the Government of India.

6. Paragraph 9.—*Supply of stores.*—The committee think that provincial indents should be sent direct to the Secretary of State, copies going to the director of railway stores.

7. The committee, without expressing any opinion as to the efficiency or otherwise of the existing system, are of opinion that the establishment of a home agency, such as is proposed, would be advantageous.

8. Paragraph 10.—*Reserve store of materials.*—This suggestion also commends itself to the committee. As provincialization extends, the necessity for the existing central depôts will cease, and provincial depôts will certainly be required. It will be understood that this implies that the Government of India must find funds for such reserves, at the commencement at least, those funds not being debitable to any particular line.

9. Paragraphs 11 and 12.—*Inspection of line previous to opening, and inquiry into serious accidents.*—The course proposed here differs very little from that proposed by the committee in their former report. But, instead of an inspection or inquiry being made by an officer of the local government, the committee would advise that the officers to be employed on such duty be either appointed or approved by the Government of India.

10. Paragraphs 13 to 17.—*Revenue establishment.*—It will be convenient to take these paragraphs together, as they are closely connected.

11. The committee desire to express their opinion that the preferable course, if possible, will be to organise a working staff, such as is advocated in paragraph 17. In all ways they consider that this is the best form which the revenue establishment of provincial (and local) railways can take. If this should be done, the points mentioned in paragraphs 14, 15, and 16 need not be considered. But if, on the other hand, it should be found necessary to continue the revenue branch of the provincial railway service on the same footing as the rest of the existing Public Works Department establishment, then the committee, after careful consideration, are unable to make any alteration in the proposals that were contained in their former report.

12. Paragraphs 18 and 19.—*Control of goods and passenger service.*—The committee concur in accepting the changes in their original proposals which these paragraphs involve, but they would add "coal" to the goods of which the rates of transport may be controlled by the Government of India.

13. Paragraph 22.—*Revenue budget estimates.*—There can be no objection to the course here suggested.

14. Paragraph 23.—*Capital budget estimates.*—The important point in this paragraph is the power to transfer grants which is desired by the local government. The committee believe that they have made sufficient provision for such a power in II. (3) of their former report, and are not prepared to make any change in the recommendations which were then submitted. It may be explained, however, that the power of restricting grants absolutely to certain projects which they thought should be reserved for the Government of India was meant to be exceptional, and not one to be ordinarily exercised.

15. The committee, after coming to the conclusions above set forth upon the various points raised by the Government of Bengal in their letter under consideration, were of opinion that it would probably be convenient, and would serve to make their proposals more readily intelligible, if they submitted a set of draft rules, embodying the recommendations made in their previous and in the

* Mr. B. W. Colvin, President.
 Lieut.-Col. Williams, R.E., C.I.E.,
 " Innes, R.E., V.C.,
 " Stanton, R.E., } Members.

present report, regarding provincial and local works carried out wholly or in part with borrowed capital. Such a draft is accordingly appended to this report, and, if approved of, these rules can be incorporated as a chapter in the Public Works Department Code. There are three omissions, however, in these rules which require explanation :—

- (1).—The special recommendation made by the committee regarding the administration of canals in VI. (1) of their original report is not inserted in the draft rules, as it cannot be dealt with by an order in the Public Works Department. The best mode of giving effect to that recommendation would probably be by a rule of practice in the Department of Revenue, Agriculture, and Commerce.
- (2).—The draft rules do not contain the proposals made by the committee regarding the supply of stores and the maintenance of a reserve store of materials. It is believed that no orders can issue on these subjects until the sanction of the Secretary of State has been obtained to the changes which have been recommended.
- (3).—The recommendation made by the first committee in section V. (8) of their report, to the effect that certain officers of the Account Department should not be transferable without the sanction of the local government, has been omitted from the draft rules. It appears to the present committee that the suggestion then made could not properly find a place in the present rules, because that suggestion is of general application, and is not restricted to those governments and administrations only which have undertaken the responsibility of their productive provincial works.

Enclosure 8 in No. 3.

RULES, as finally revised and modified, relating to **PROVINCIAL PRODUCTIVE PUBLIC WORKS** carried out partly or wholly with borrowed funds, dated 20th March 1878.

THE Viceroy and Governor General in Council having resolved to extend as soon as practicable to all local governments and administrations the use and financial and administrative control of all productive public works, including irrigation works and railways, other than guaranteed railways, whether already constructed or hereafter projected in their several provinces, on their undertaking the financial responsibility for the same, the following rules providing for the control of such works are laid down for guidance, and it will be understood that, in these rules, the term "local government" includes a local administration :—

I. Productive public works (under which name will henceforth be classed the works till now called extraordinary) are classified as "imperial" and "provincial,"—imperial, when the work is carried out under or for the Government of India, and the capital and interest are provided from imperial sources; provincial, when the work is carried out under the local government, and when the interest is paid from provincial funds, whether the capital is wholly provided from provincial resources, or supplemented by grants from the Imperial Treasury, or by loans.

II. The whole of the rules hitherto in force regarding the preparation of designs and estimates for extraordinary works, the sanction of expenditure upon them, the method of rendering the accounts, and so forth, will henceforth be applicable to all productive public works, excepting so far as they may be modified by any of the following rules, or by any other rules issued hereafter by proper authority.

III. The duty of originating proposals for works considered necessary for the provinces under its administration will devolve on the local government. The Government of India will reserve the following points for its special consideration and final orders when a complete project is submitted for sanction; but it will declare its views regarding them, so far as may be possible, at an earlier stage, if desired by the local government; and, if occasion should arise, will suggest projects for consideration by the local government :—

- (1.) The general alignment and scope of the proposed work, and its bearing upon other existing or projected works of a similar class.
- (2.) The financial prospects of the work.
- (3.) The general character or standard of the work, in which, if a railway, are included the gauge and weight of rail.
- (4.) The measures proposed for raising the capital locally, and for meeting the interest thereon.

As respects the first point, the alignment of a railway should not compete injuriously with any previously existing line, State or guaranteed. If not confined to the territories of the local government, the views of the local governments of adjacent British territories will be ascertained; and, if foreign territory be traversed, this must be done under arrangements approved in the Foreign Department.

To admit of the second point being considered, the local government will submit a statement of the traffic, or income expected, and proofs of the probable commercial success of the undertaking.

As to raising funds, the mode must not be objectionable in principle, or interfere with imperial operations. •

IV. The cost of the preliminary operations of all provincial productive works will be met by the provincial government. In the case of schemes the investigations for which are undertaken by the desire of the Supreme Government, the charges will (if it seems necessary) be met by an imperial grant debitable under ordinary; but, in the case of all other schemes, the provincial government will find the funds, subject to the condition in the following rule.

V. If a project which has been investigated by the provincial government be eventually sanctioned by the Government of India and the Secretary of State for execution as a provincial work (Rule I.),

the outlay from the commencement will be debited by transfer to "productive public works," if the provincial government so desire, and added to the capital account of the work, and interest will be paid on it, as well as on the outlay on actual construction.

VI. In the preparation of all railway projects, the standard dimensions approved by the Government of India will be followed, and the type-plans circulated by the Government of India will be adopted as far as practicable.

VII. On the local government reporting that a project is ready for inspection, the Government of India will depute a selected officer to examine the designs and estimates, after a personal inspection of the locality, if thought requisite. The officer so selected will report to the Government of India, giving a copy of his report to the local government, which will then submit the project, after revision to meet the modifications suggested by the officer in question, so far as they may be accepted; the object being that the Government of India shall receive a project which shall have already been approved by the officers of both governments.

VIII. All projects for productive public works, the estimates for which do not exceed 10 lakhs of rupees for works, or 12½ lakhs including establishment and tools and plant, and which are complete in themselves, will be dealt with finally by the local government, after consideration of the report referred to in Rule VII., so far as engineering details are concerned, and they need not, therefore, be submitted to the Government of India, accompanied by detailed plans or estimates; a selection of the plans, and abstracts of the estimates sufficient to indicate clearly the scope of the project, and to justify its acceptance as a productive work, being in this case all that is required. But all such projects, the estimated cost of which exceeds 10 lakhs of rupees for works, or 12½ lakhs including establishment, tools and plant, will be submitted, for final orders on all points, to the Government of India, with the plan and abstract estimates of the several works composing it.

IX. After approval of any project by the Government of India, the local government will have power to modify the details of the works under any minor or sub-head of account, or component part, within the amount sanctioned for that head or part, and also to apply savings under one head to another in accordance with existing rules, provided that such modifications do not in any way involve the alteration of other parts of the project, or affect the standard, efficiency, or stability of the whole work. If the modification be likely to lead to any such result, the local government will consult the Government of India before carrying out the proposed change.

X. During the progress of works, they will be inspected from time to time by the consulting engineer to the Government of India for State railways, and by the inspector general of irrigation, or other selected officer.

XI. The yearly grants for capital outlay on provincial works will be fixed by the Government of India, on a consideration of the requirements of the several works and of the total grant of the year for the whole of India; and, in order that this grant may be as nearly as possible certain and continuous, local governments should make careful forecasts of their future requirements for a term of four or five years, so that the Government of India may either make arrangements for complying with them, or give them timely warning of its inability to do so.

XII. The yearly grant having been fixed and assigned to the different projects, the capital budget estimates will be submitted for the review and orders of the Government of India, and local governments will be empowered to re-appropriate the allotments from one sanctioned project to another, provided that this power has not been reserved by the Government of India in the orders on the budget (a course which may be necessary in exceptional cases), and that the project to which it is transferred be a work of the same class as that from which it is taken, *e.g.*, the transfer should be from one railway to another, or from one canal to another; in every such case, a report should be made for the information of the Government of India.

XIII. In case of its being found necessary by the Government of India to reduce the total grant during any year, the local government will have the power to distribute the total reduction over any of the works in progress, other than those in the case of which, as provided for in the last paragraph, this power may have been specially reserved by the Government of India.

XIV. Indents for stores to be obtained through the Secretary of State will be forwarded through the director of State railway stores to the Government of India. It will be the duty of the director of stores to check such indents by the lists of surplus stores available on guaranteed and State railways, in order to prevent, so far as may be practicable, the accumulation of surplus stocks. Proposed reductions will be brought to the notice of the local governments concerned, and the indents, as revised, will be forwarded to the Government of India for transmission to the Secretary of State for compliance, provided the local governments have made due provision for funds.

Establishments.

XV. The establishments of engineers, upper subordinates, storekeepers, &c., required for the construction of provincial railways, will be made provincial in all cases in which the local government has the means, whether by fixed yearly imperial grant or otherwise, of retaining their services permanently. All establishments that cannot be permanently employed, and which will consequently be thrown back upon the hands of the Government of India, will remain continuously on the imperial list.

XVI. The permanent engineer establishment in each province will ultimately be fixed at the minimum needed for its normal requirements, first appointments being made according to the rules laid down in Chapter I., Public Works Code, as revised, and promotions being made by local governments under the same rules as for provincial establishments.

XVII. Any establishments for the construction of provincial works which may be required in

excess of the minimum referred to in the preceding paragraph, will, if not immediately available from the permanent establishment of some other work or province, be entertained temporarily under the rules laid down for the entertainment of temporary establishments.

XVIII. But if available from some other work or province, they will, on application to the Government of India, be placed at the disposal of the provincial government, and will be employed on the same footing as provincial establishments, except that they will remain on the imperial list, and their promotion will be made on the recommendation of the local government; on the completion of the work or works for which they were transferred, they will become an imperial charge, but will continue to be employed by the provincial government until elsewhere absorbed.

XIX. As soon as the establishment permanently required in any province for railway work is fixed and made provincial, it will be in the power of the local government to decide whether or not to amalgamate the establishment employed on railways with that employed on canals and general provincial works.

XX. Within the limits fixed by the Government of India, the local government will have the power of altering or reducing circles of superintendence, and of creating and abolishing executive divisions in all cases of establishment which has been made provincial.

XXI. As laid down in Rule XV., the promotion of all establishments borne on the imperial list, but employed provincially, will be made by the Government of India upon the recommendation of the local government; in all other respects, the establishments which are employed by the local government will be treated as provincial establishments, and neither first postings, nor transfers to or from the province, will be made without first consulting the local government.

XXII. The duties of the officers of the accounts branch are fully laid down in the revised Public Works Code, and it is not intended that those rules should be deviated from, except that, when the local government desires it, only one officer of the accounts branch shall be in direct communication with the Accountant General, Public Works Department, in respect of each class of works, such as railways, canals, &c.

Railways open for Traffic.

XXIII. The superior revenue establishments of provincial railways may be either wholly imperial or wholly provincial, at the option of the provincial government.

If imperial, postings, transfers, and promotions will be made in accordance with Rule XXI.; but appointments to the sanctioned working establishment, whether superior or subordinate, of open lines, on salaries not exceeding Rs. 250 monthly, will not require the orders of the Government of India; and no class or grade of officers on the revenue establishment, other than those recognised on imperial State railways, can be created without the permission of the Government of India.

If provincial, the establishments, both superior and subordinate, will be engaged to serve for a term of years only, without claim to pension or gratuity from the State unless otherwise specially agreed. The rate of pay and other conditions of service will be within the sole control of the provincial government, which may, at its discretion, extend to this class the operation of the rules under which pensions and gratuities are granted to persons employed at the charge of local funds.

XXIV. The usual revenue budget estimates, as also the half-yearly authorisation lists of establishments, together with the working estimates of open lines, will be dealt with by the local governments. Copies of the revenue budget estimates and of the authorisation lists will be submitted for the information of the Government of India.

XXV. Previous to opening a line for public traffic, and in case of serious accidents on an open line, inspections will be made in accordance with the general instructions prescribed by the Supreme Government. Officers independent of the provincial railway branch, and either appointed or approved by the Government of India, will be nominated for these duties, and will be instructed to fulfil them on the requisition of the local government or railway authorities. Their reports should first be submitted to the local government, by which they will be forwarded to the Government of India for information, with a copy of the orders passed. It will thus rest with the local government to arrange for the inspection of a railway, and to authorise its opening, after consideration of the report of the inspecting officer.

XXVI. A local government shall not close any line of railway without first obtaining the permission of the Government of India.

XXVII. Through-booking with foreign railways and interchange of traffic, as also, on lines of the same gauge and standard, of vehicles, will be subject to the control of the Government of India.

XXVIII. In through-booking arrangements, as well as in other matters affecting guaranteed railways which may arise in connexion with any provincial lines, the provincial government will communicate with the local consulting engineer for guaranteed railways.

XXIX. Provincial railways shall be bound to perform all customary services for other Government departments on the same conditions as imperial State railways perform them; and if any differences of opinion arise as to the scale of charges they will be referred to the Government of India.

XXX. The control of the train service, tariff of rates and fares, goods classification, and other details connected with the working and management of provincial railways, is vested in the local government, subject to such general principles as may be laid down from time to time by the Government of India; but the Supreme Government reserves the power to control the rates for the transport of food grains, of coal, and of other staple products of the country; to direct the running of cheap passenger trains at certain speeds and at convenient hours; and to give such orders as will conduce to the convenience of the public in the matter of through-booking with foreign railways.

XXXI. The expenses of direction will be charged rateably to the several lines in a province, and these lines should bear their share of the consulting engineer for State railways, the director of stores,

and the port storekeepers, as well as of any general charges debited to State railways. They will also continue to bear their share of losses of stores at sea.

XXXII. The accounts of receipts and expenditure of provincial railways will be submitted under the rules in force for imperial State railways. The Government of India will exercise a vigilant check over the incidence against capital of charges arising on works earning revenue; and the principles from time to time enunciated on this head, and the orders passed in particular cases, should be accepted and acted upon loyally. Copies of the revenue accounts of open lines, and of the reviews thereof, will be submitted for the information of the Government of India.

Enclosure 9 in No. 3.

RESOLUTION by the GOVERNMENT OF INDIA, March 23, 1878, No. 2009.

Read—

Financial Department Resolution, No. 1868, dated 15th March 1878, prescribing rules and form for provincial debenture loans for productive public works.

Read also—

Public Works Department rules, dated 20th March 1878, for the construction and management of provincial productive public works.

RESOLUTION.—The Governor General in Council is pleased to prescribe the following subsidiary rules for the regulation of the finance and accounts of provincial productive public works :—

1. Under instructions from the Secretary of State, the Government of India is pleased to direct that works hitherto described as extraordinary shall henceforth be called productive public works.
2. The whole of the rules hitherto in force regarding the preparation of designs and estimates for extraordinary works, the sanction of expenditure upon them, the method of rendering the accounts, and so forth, will henceforth be applicable to productive public works.
3. The immediate financial and administrative charge of productive public works within the territories of the several local governments and administrations will eventually be vested in those authorities, subject to the rules prescribed in the Financial and Public Works Departments, to secure a due general control by the Government of India. It will, however, be necessary, before this intention can be carried out, that a satisfactory arrangement shall be made between each provincial government and the Government of India in the Financial Department, as to the liabilities of the provincial revenues for charges connected with productive works already completed or in progress in the province, and the manner of crediting the income of such works. When such an arrangement has been made, the full responsibility for its productive works will devolve on the local government, and the following rules will become applicable to it.
4. In future, as a general rule, and unless a work is required in the general imperial interests, or for the development of some poor or backward province, the Governor General in Council will not sanction, or recommend the Secretary of State to sanction, the construction of any productive public work, unless the provincial government undertakes to hold the imperial treasury harmless in respect of all charges for interest or otherwise in respect thereof.
5. A provincial government may find funds to be expended on productive public works—
 - (a.) by grants from its accruing provincial revenues, or from any balance of such revenue at its disposal;
 - (b.) by negotiating, with the sanction of the Government of India, local debenture loans; or
 - (c.) by obtaining grants from the Imperial Treasury.
6. Interest at a rate to be fixed by the Governor General in Council, so as to cover all discounts and other contingent charges arising from loan transactions (at present $4\frac{1}{2}$ per cent. per annum), will be charged to the provincial government on all sums granted to it from the Imperial Treasury for the construction of productive public works.
7. From whatever source the funds are supplied, the whole expenditure upon productive public works must be charged to the capital account of the work concerned and in the public accounts.
8. The provincial government will be responsible for the entire cost of maintaining its own productive public works from the provincial revenues, and will appropriate to provincial uses the whole income accruing therefrom, subject to any special or general rule under which the Government of India may be held to be entitled to a proportion of any net profits.
9. To enable the local governments to make arrangements with proper foresight for the systematic construction of productive public works within their several jurisdictions, the Government of India will undertake to provide fixed grants for each government, year by year, for five years certain, provided always that no unforeseen financial difficulty supervene. These fixed grants will be in addition to the amount which the local government may be able, from time to time, to supply from its own resources, or, with the sanction of the Government of India, to raise by local debenture loans.
10. With respect to establishments required for this class of works, it will be the policy of the Government of India that the local government shall not be subjected to more control in respect to their public works establishments than in respect to the rest of their civil establishments, with the distribution and promotion of which the Government of India ordinarily exercises little or no interference. It may perhaps be possible to organise for each province a public works service as separate and self-contained as the provincial civil services. Meanwhile the following principles must be observed :—

- (1.) Without the special sanction of the Government of India no recruits must be engaged above the rank of lower subordinate, unless there are no superfluous officers of the required rank in any other province.
- (2.) Each local government must bear its share of any superfluous officers already in the service.
- (3.) Promotions from one rank to another must not be made while there are supernumerary officers of the higher rank in other provinces.

11. Subject to these general conditions, the Government of India will interfere as little as possible with the arrangements of the provincial governments, and will not, without consulting them, transfer officers from their service to other provinces or other employ, or *vice versa*. Further orders on these subjects will, so far as is requisite, be issued from the Public Works Department.

12. The accounts of all productive public works shall be kept, as now, by the officers of the Public Works Accounts Department. The local examiner of public works accounts shall, for this purpose, occupy a like position relatively to the local government to that of the civil Accountant-General; that is to say, he shall be an accountant to the local government for public works; but he will remain, as now, responsible to the Accountant-General of the Public Works Department, and, through him, to the Government of India for the due enforcement of all financial rules and orders. An examiner of public works accounts shall not, ordinarily, be removed or transferred by the Government of India, except in consultation with the local governments concerned.

13. The Government of India may, at its discretion, require the local governments to bear such part of the cost of the Account Department, or of the allowances and establishment of the consulting engineer to the Government of India for State railways, including in each case the indirect and deferred cost, as it may determine to be due to provincial productive public works.

14. The local government shall keep such accounts of their transactions relating to productive public works, and shall return to the Government of India, and publish such statements and exhibits, as the Government of India may from time to time require and direct.

Enclosure 10 in No. 3.

MINUTE by SIR A. CLARKE, May 2, 1878.

THOUGH this Despatch deals with productive public works, which include works of irrigation as well as railway, it is chiefly as respects the latter class of works that the Government of India has now made any important change in its policy. The control of irrigation works had been previously decentralised; railways are now being decentralised, simultaneously with a great extension of provincial responsibility in financial matters.

2. This should be more clearly indicated, and I should wish attention to be drawn to my minute of the 28th December, and memorandum of the 28th August 1877, in order that it may be understood by Her Majesty's Government that I have accepted the application of the policy of decentralisation to railways with very considerable doubt and hesitation as to the administrative and financial benefit to be secured by it.

3. Further, I am of opinion that the second paragraph should be relegated to a less prominent position; for I cannot but think that to put forward the Hathras-Muttra light railway, of 27 miles in length, might encourage the inference that this line may be accepted as typical of the railway extensions to be made as provincial productive public works. Whatever the provincial governments may say on this subject, I must record, as the member of his Excellency's Council responsible for public works, that it will not prove to be so.

4. This insignificant line is little more than a steam tramway laid on an existing public road, and, in considering any extensive scheme for the extension of secondary railways, it would be worse than futile to quote it as a type, or to ignore the facts connected with the adjoining 400 miles of the Rajputana Railway on the same gauge.

5. Some allusion to the financial results of the Muttra line would not be out of place in paragraph 6; but, to avoid its being misunderstood, there should be a rider that, though the first cost of these provincial lines will be kept down to the utmost, experience of the metre gauge lines of Upper India does not justify us in the anticipation that they can be built under 5,000*l.* to 6,000*l.* a mile in average country, though rails may be laid on a watershed in very exceptional cases for 3,000*l.* to 4,000*l.* a mile.

6. Lastly, I am of opinion that, though a light railway adapted for slow goods traffic is better than a road, and in many parts of the country will prove adequate to meet ordinary requirements, it will not meet a real pressure.

A slow speed is not compatible with a heavy traffic. Whatever lines we may carry out, they should be suitable for a speed of not less than 20 miles an hour, and for engines capable of hauling at that speed good train loads.

7. I am satisfied that the standard adopted in this respect for the existing metre gauge Imperial State railways cannot be lowered with prudence.

8. I conceive it to be my duty to advise that a sound system of construction should be followed, and that at least we get railways which will not fail under the first pressure.

Subject to these remarks I have signed the Despatch.

AN. CLARKE.

Enclosure 11 in No. 3.

MINUTE by the VICEROY, May 2, 1878.

1. THE minute which in reference to the subject of the accompanying Despatch has been recorded by my honourable colleague, Sir Andrew Clarke, appears to me to treat of matters which are not really under discussion in the Despatch itself.

2. The policy of extending the financial and administrative responsibility of the local governments of India in respect to the construction and management of their public works has been fully and finally approved by Her Majesty's Government. It has consequently become the duty of the Government of India to consider what rules should now be laid down for regulating the operations of the local governments in this branch of their business. Such rules have been framed in the Public Works Department on the recommendations of a committee, in which that department as well as the local governments was strongly and ably represented; and these rules, having been approved by the Financial Department (whose responsibility they mainly concern), are submitted by the present Despatch for the approval of the Secretary of State for India.

3. The Despatch, I need scarcely point out, deals exclusively with the financial aspect of the policy which, with the approval of the Secretary of State, has now been in operation for more than 12 months.

4. The precise character of the works which may hereafter be sanctioned by the Government of India for construction as proper provincial productive works is, unquestionably, a matter of great importance. But it would be entirely out of place to discuss questions of technical construction and the like in the present communication to the Secretary of State, which assumes, as a matter of course, that in reference to such questions all suitable precautions will be taken in the Public Works Department of the Government of India before the sanction of this Government is given to any project for execution as a provincial productive work.

5. Further, I have only to observe that our present proposals involve no change in the established policy of the Government of India on the subject to which they refer. What is now desired and required is that the arrangements between the Government of India and the Governments of Bengal and the North-western Provinces, which were concluded in the spring of 1877, and approved by Her Majesty's Government, should be promptly placed on a firm basis, and continuously carried out in accordance with the spirit in which they were designed, so far as experience has confirmed the expediency of their operation and indicated the course of their development.

LYTTON.

No. 4.

TELEGRAM from the VICEROY, June 26, 1878.

REFERRING to Patna-Gaya Railway correspondence, ending with your 109, railway, dated 19th October 1876, and paragraph 7 of our financial Despatch 186, dated 2nd May 1878, will you authorise Bengal Government specially to raise provincial debenture loan for 14 lakhs rupees? Lieutenant-Governor anxious to issue loan immediately, expecting it to be highly successful.

We think this experiment very important, and are satisfied that proposed railway will be useful and remunerative.

No. 5.

TELEGRAM to the VICEROY, July 9, 1878.

YOUR financial letter, 186, and telegram, 26th June. General question of debenture loans will be duly considered. Meanwhile, before sanctioning loan for Gaya-Patna Railway, I request full information in a Despatch as to prospects of line, mode of providing funds, and other particulars.

No. 6.

EXTRACTS from DESPATCH to the GOVERNMENT OF INDIA, July 18, 1878, No. 245
(Financial).

4. OF the 5,600,000*l.* of debt incurred in England during the year 1876-77, 3,393,717*l.* was entered in the accounts for that year as incurred for productive public works. That entry is not consistent with the fact that the loan in question was raised solely in consequence of the reduction of the Secretary of State's drawings on India, in order, by relieving your Treasury, to enable you to meet the cost of the famine. The principle that all moneys required to be raised on loan for productive public works shall be borrowed *in India*, having been clearly laid down in the finan-

cial correspondence with your Government and declared to Parliament, it would manifestly be a violation of that principle if money borrowed in this country were applied to the construction of such works.

55. In paragraph 6 of Lord Salisbury's Despatch* your attention was drawn to the fact that, in order to relieve your Treasury during the pressure arising from famine in the year 1877-78, the drawings on India "were reduced by nearly six millions below the estimate of January 1877," and you were informed, "that whenever the demand for bills, and the state of the exchange will admit, the sum" so "provided from the Home Treasury to meet famine expenditure, should be repaid from the million and a half which is to be raised annually on account of famines." Page 290.

56. A different application of the million and a half to be so raised is contemplated in your financial letter dated the 4th January last, and it is remarked in paragraph 28 of the budget statement for 1878-79,—“By investing in productive public works, from the resources thus specially created, a sum of 1½ millions yearly, instead of from borrowed money, the charge for interest, which would otherwise arise, will be saved, while an additional income will be created from the works, which will supply in the future a source from which to meet, without increased strain on the finances, a corresponding interest payment on any debt which may then be incurred to meet famine charges.” Page 188. Page 288.

57. It has been distinctly laid down in correspondence with your Government, and explained to Parliament, that whatever loans may be required for the construction of productive public works must be raised in India.

58. In the budget for 1878-79, you propose to expend in the construction of productive public works a sum of 4,555,000*l.*, and, towards meeting that expenditure, to raise a loan in India of only 2,500,000*l.*, the remaining sum required being supplied from the Famine Insurance Fund and from the cash balances. By such an arrangement the whole of the amount of that fund would really be appropriated towards expenditure on productive public works, the amount raised in this country would remain unpaid, and, whenever a famine or other emergency should again occur, the means of meeting it would again be sought from this country.

59. There are strong objections to such an arrangement. It is necessary that at all times, and especially when Parliament is prorogued, the Secretary of State should have authority to raise, on any emergency, a loan here, and as the power of borrowing which he possessed in January 1877, as well as that obtained in August 1877, has been used for the purpose of relieving your Treasury during the famine, it becomes a necessity that the first application of the Famine Insurance Fund should be to place him in the position in which he would have been had the drawings on your Government not been reduced.

60. Moreover, as is well known to your Excellency, it is necessary to limit as much as possible the expenditure in this country, which has so greatly increased in recent years, and unless the importance of keeping down that expenditure, and of preventing any increase to the home debt, be fully recognised and acted on, the home disbursements, already no less than 17 millions annually, must go on increasing until the remittance of the required amount from India, at present very difficult and embarrassing, may prove to be almost impracticable.

61. In times of difficulty, whether from famine or any other cause, calling for the expenditure of large sums which cannot at the time be raised on loan in India, you are compelled to look to the Secretary of State in Council to aid you with money raised here, but when the emergency has passed, and your finances show a considerable surplus, it is most important that the sums supplied to you during these emergencies should be repaid.

71. It will be apparent to you that, when the large amount of the weekly drawings is considered, a cash balance of little more than two millions is by no means a safe margin to meet any disturbance in the demand for bills; and that the Secretary of State in Council is in a position in which he would be unprepared to meet any serious emergency.

72. Yet, while recognising this fact, there is no sufficient ground on which an application to Parliament for another Act for raising a loan could be based. As already shown in this Despatch, the mode in which the Famine Insurance Fund is proposed to be applied by you is opposed to the avowal made in Parliament in regard

to borrowing only in India for productive public works, and under these circumstances an application for further powers could not be justified.

73. I must therefore request that, unless you can meet a further demand from your cash balances during the year to the amount of one million, you will, if not too late, review your arrangements in regard to productive public works and loans to native states, and will, if necessary, take such measures as you may consider best for obtaining a further sum on loan in India during the current year. I name the sum of one million, instead of a million and a half, as remittable during the current year, in deference to your Excellency's strong representations.

No. 7.

DESPATCH to the GOVERNMENT OF INDIA, July 31, 1878, No. 267 (Financial).

Page 9.

Paragraph 1. I have considered in Council your Excellency's financial letter, dated the 2nd of May, No. 186, soliciting approval to the arrangements you have made for delegating to local governments financial responsibility and administrative authority in regard to provincial productive public works, and to the rules you have framed for permitting local governments to raise provincial loans for the construction of such productive public works.

Page 242:

2. On the occasion of moving, on the 9th of February last, that the Report of the Select Committee on the Bill for the licensing of trades and dealings in the Punjab should be taken into consideration by your Council when assembled for the purpose of making laws and regulations, Sir John Strachey made the following observations:—

" I see in another direction also promise of further relief to the central government, and of great benefit to the provincial governments, in respect to the debt to be hereafter incurred for works of local utility. Both in Bengal and in the North-western Provinces steps, which have been attended with marked success, have already been taken for obtaining subscriptions to loans in the localities interested in works of this character. I hope that it may be found possible to develop and systematise such a means of providing the capital that may properly be borrowed for works of improvement; and that local contributions may be successfully sought under conditions which will interest the classes directly benefited by such works, not only in the provision of the funds required for their construction, but in the proper management of the works when they are completed, and in the development of the revenue which they produce."

3. I desire to convey to your Excellency my cordial concurrence in the policy of interesting native landowners and capitalists in the development of the resources of the country, and in the management of works constructed for the purpose of benefiting the neighbourhood of the places in which their property is situated.

4. In furtherance of this policy, you express your intention of giving preference, as far as possible, to productive public works which may serve as works of protection of the British provinces against famine, and for which full financial responsibility is undertaken by the local government of the province to be benefited. The rules that have been framed provide that, if any local government desires to construct a productive public work, it must first satisfy your Government as to the character and financial prospects of the scheme; and, on its acceptance by the Government of India and Her Majesty's Government, and on the provincial government undertaking financial responsibility for the work, the construction and management will be delegated entirely to the provincial government, subject only to a general control on your own part. In special cases, where you are satisfied of the remunerative character of the work, another set of rules which has been issued by your Excellency will permit local governments to raise provincial debenture loans for productive works.

5. In considering the propriety of these regulations, it is essential to arrive at a clear understanding of the extent to which the provincial governments are to be responsible for such loans, and of their effect on the general finances of India. You have provisionally authorised the Government of the North-west Provinces to take action under the rules for the construction of a railway from Cawnpore to Farrukhabad as a famine relief work; and you have granted a similar permission to the Lieutenant-Governor of Bengal in the case of the Patna and Gaya Railway, because he has assumed full financial responsibility for the line, and has satisfied you of its financial soundness.

6. From the documents forwarded by your Excellency in relation to the latter

scheme, I find that the debenture loan, if sanctioned, will form part of the registered public debt of India, and that the debentures will run in the name of the Secretary of State in Council of India, and in the amount of the notes will resemble the general debenture debt of your Government. The chief points in which they differ are that the interest will not be payable within a certain distance of the Presidency towns, and that, if the net receipts of the work shall prove more than sufficient to pay 4 per cent. interest on the debentures and $4\frac{1}{2}$ per cent. interest on money advanced by the Government, they give to the holder a right to share with the Government in the surplus profits.

7. This latter condition is intended to stimulate both the local government and the private subscribers to use their utmost efforts to render it a financial success. It must not, however, be overlooked that the result might disappoint the estimates formed respecting the work; and in that case the provincial government would, under the proposed rules, be bound to make good the interest from other sources at their disposal, in which case demands might arise for larger grants from your Government, while, even if able to satisfy the claims of the debenture-holders, the receipts might be insufficient to defray the interest on that portion of the capital which had been advanced from Government funds. Thus there would always be a risk of an ultimate financial burden devolving on the general revenues of the country.

8. It appears to me, therefore, that in all schemes for carrying into effect the policy of constructing works of public utility by the application of local capital assisted by loans from the Government, no such loans should be granted except as part of the general scheme of your Government for the construction of public works during the year; and I deem it essential that no authority should be given to provincial governments to enter on any productive work of which the amount of charge proposed to be granted as a loan from the Government has not been provided in the general budget, as any other course may involve your Government in liabilities for which no adequate forecast or provision has been made.

9. I am not satisfied, moreover, of the necessity of resorting, for the purposes of these works, to the plan of Government guarantee, which, I need not remind your Excellency, has been admitted to be no longer generally suitable to the circumstances of the country. At all events, I should desire in the first instance to try the experiment of raising local capital on the exclusive security of the success of the works, giving to the subscribers every possible interest in the management, and every inducement to economical administration. Not until this has been shown to be impracticable, would I have recourse to a system of guarantees which is now wholly abandoned in respect to imperial works.

10. I enclose a copy of a telegram which I addressed to your Excellency on the 9th instant, in reply to your telegram of the 26th of June, and I request to be furnished with full particulars of the mode in which the capital required for the Patna-Gaya Railway is to be advanced, of the resources from which the receipts are anticipated, and of the prospects which have led your Government to be satisfied with the financial soundness of the work, of which you appear to have entertained doubts when it was first brought to your notice. Page 26.

11. Subject to the general instructions given in this Despatch, it will give me much satisfaction to find that there is sufficient reason for holding out inducements for the construction of a railway, which in other respects appears likely to be a very useful one to the country through which it is to pass.

I have, &c.
CRANBROOK.

No. 8.

DESPATCH to the GOVERNMENT OF INDIA, October 31, 1878, No. 141 (Railway).

MY LORD,

PARAGRAPH 1. I have received your Excellency's railway letter, No. 197, dated 3rd September last, requesting sanction to an extension of the Rangpur branch of the

Northern Bengal State Railway to a point on the river Tista. This extension is $10\frac{1}{2}$ miles in length, and is a section of a branch which it is contemplated to carry eventually as far as Dhubri, on the Brahmaputra.

2. In conveying the sanction of Her Majesty's Government to the extension to the Tista, I would point out that there is some uncertainty as to the source from which it is proposed to provide the requisite funds. In one place the work is spoken of as "a portion of the Northern Bengal State Railway," which has been constructed from imperial funds; while in another it is represented that "the Bengal Government has expressed its readiness to accept all financial responsibility in connexion with the extension." I request to be informed how the matter really stands, that is to say, whether the extension is to be made from imperial or from provincial funds.

I have, &c.
CRANBROOK.

No. 9.

DESPATCH to the GOVERNMENT OF INDIA, December 12, 1878, No. 443.

MY LORD,

Page 28.

PARAGRAPH 1. Having understood from Sir John Strachey that some misapprehension existed on the subject of the provincial debenture loans dealt with in my Financial Despatch of the 31st July last, No. 267, I requested him to explain verbally his views on the question. He informs me that the policy explained in the 8th paragraph of that Despatch is accepted by your Government without reserve, namely, that in all schemes for the construction of public works by the application of local capital, assisted by loans from the Government, no such loans should be granted except as part of the general scheme of your Government for the construction of public works during the year, and that no authority should be given to provincial governments to enter on any productive work of which the amount of charge proposed to be granted as a loan from the Government has not been provided in the general budget.

2. Sir John Strachey states, however, that there is, in your opinion, no probability of capital being raised locally for such works on the exclusive security of the success of the works, as suggested in the 9th paragraph of that Despatch, and that, in consequence of the consent which I gave, in the 11th paragraph, to inducements being held out for the construction of the railway from Patna to Gaya, being expressed as "subject to the general instructions given in" the Despatch, you are refraining from attempting to raise capital locally for the work in question.

Page 302.

3. As no reply has been received from your Government to that Despatch, although in the last paragraph of your letter of the 26th of September, No. 372, you intimated your intention of sending one, and as I deem it of great importance that a clear understanding on the subject should be arrived at without delay, I, on the 10th instant, addressed to your Excellency the following telegram:—"Financial Despatch, No. 267, Provincial Loans. Suggestion in paragraph 9 not intended as an obstacle to raising funds locally under system explained in paragraph 8."

4. While I am desirous that every facility should be given for raising loans in the manner proposed for local works, it will be apparent to your Government that in future the total amount to be so borrowed should be included in the arrangements of the budget for the year.

5. From your letter dated the 30th of October, No. 250 (Railway), I learn that you are proceeding with the railway from Patna to Gaya, and I shall be glad to be furnished with the particulars regarding this line, requested in the 10th paragraph of my Despatch of the 31st July last.

I have, &c.
CRANBROOK.

No. 10.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, February 20, 1879, No. 62 (Financial), paragraph 19.

See No. 109, page 156.

No. 11.

LETTER from the GOVERNMENT OF INDIA, February 21, 1879, No. 56 (Financial).

MY LORD,

WITH reference to paragraph 2 of your Railway Despatch No. 141, dated 31st October 1878, we have the honour to explain that the Government of Bengal will guarantee, from provincial resources, interest at $4\frac{1}{2}$ per cent. per annum on the capital expended on the construction of the extension of the Rangpur branch of the Northern Bengal State Railway to the Tista River, now sanctioned. Page 30.

2. The funds expended upon a productive public work, for which, as in this case, a provincial government accepts financial responsibility, are for the most part provided from the Imperial Treasury; the exceptions being (1) when a provincial debenture loan is raised, and (2) when a local government finds the money from its own ordinary resources. To the extent to which funds are thus found by the provincial government, the resources of the Imperial Treasury are not employed, and the provincial government has no interest to make good to the Imperial Government.

3. But probably the statement contained in the first paragraph of this Despatch is a sufficient answer to your Lordship's question.

We have, &c.

LYTTON.

A. J. ARBUTHNOT.

A. CLARKE.

JOHN STRACHEY.

E. B. JOHNSON.

W. STOKES.

A. RIVERS THOMPSON.

No. 12.

EXTRACT from TELEGRAM from the VICEROY, March 8, 1879.

WE have with great difficulty reduced productive public works capital expenditure, including Madras Harbour Works, to 3,500,000*l*. * * * We most earnestly beg you to postpone repayment of your 1,500,000*l*.

No. 13.

EXTRACT from TELEGRAM to the VICEROY, March 11, 1879.

PRODUCTIVE works expenditure must be reduced as speedily as possible to rate of two and a half millions annually.

No. 14.

EXTRACT from LETTER from GOVERNMENT OF INDIA, dated March 13, 1879, No. S7A (Financial).

8. THE two Abstracts, I. and II., are now identical throughout, excepting that in No. II. the revenue and expenditure belonging to productive public works are

eliminated and shown separately under their appropriate heads. Each abstract in its present form seems to us to serve important purposes, and we trust that both may be permanently preserved.

9. Your Lordship will, we have no doubt, approve of our showing in the separate schedule in Abstract No. II. as much of the land revenue as we have already ascertained to be believed due to the irrigation works, of which the accounts are included in the schedule, and we trust that you will agree with us in thinking it better to show this attributed revenue independently under its own proper head I., Land Revenue, rather than to include it under XXVI., Irrigation and Navigation.

Enclosure in No. 14.

EXTRACTS from RESOLUTION by the GOVERNMENT OF INDIA, March 13, 1879, No. 1249 (being the Financial Statement for 1879-80).

16. Under instructions from Her Majesty's Secretary of State a new abstract statement, No. II., was added last year in the form in which the accounts of British India are now presented to Parliament. In this form are separately shown, on the one hand, the gross revenue derived from *productive public works* (formerly styled *public works extraordinary*), and the net revenue from the railways and irrigation works on the capital cost of which interest is guaranteed from the public revenues; and, on the other hand, the working expenses of the productive public works, together with the guaranteed interest actually paid, and interest calculated upon the capital cost of the State works, which yield the revenue thus separately shown, and any other current expenditure upon both classes of works.

17. The separation is not yet complete. The Government has not yet succeeded in ascertaining the increase of the land revenue, which may be properly attributed to productive public works in the Madras Presidency.

* * * * *

21. The Government has determined to include in the productive public works statement this year as much of the increased land revenue due to irrigation as can be approximately ascertained. The amount thus shown in the separate schedule under I., *Land Revenue*, belongs to the North-western Provinces, the Punjab, and Bombay. It should be understood that these figures are only estimates made upon such basis of facts as can be discovered. Often no distinction was made when the revenue was assessed between the portion of the land revenue attributed to these works of irrigation and the remainder which would be recovered if no irrigation were provided; and, if such a distinction actually had been made, it would frequently have been arbitrary. It is certain that generally by reason of these works more land revenue is collected than would be collected if they did not exist; but what is the precise amount thus in excess is a question which can often be answered only conjecturally, according to experience and individual opinion.

* * * * *

28. As a further development of the policy of provincial management of provincial finances, it is intended to issue, as opportunity offers, local debenture loans, the proceeds of which will be devoted to particular works. These debenture loans will be part of the registered debt of India, and technically and legally the security for them will be the same as the security for the rest of the registered debt, namely, the whole public revenue of India. They will differ from the general loans as follows:—

- 1st. The interest upon them will not be payable at or near the Presidency towns, but only locally in the neighbourhood of the works for the construction of which they are raised.
- 2nd. They will be raised in the name of the local governments, who will be responsible to the Government of India for the due discharge of all obligations arising out of them.
- 3rd. The debenture holders will receive besides their interest a share of the profits of the works constructed with their money; and, although allowed no property in the works, will be invited to assist in their management, as has been already successfully done in the case of the *Muttra-Hathras Local Railway*.

29. It is hoped by this expedient to draw out local resources, which might otherwise continue latent, and to promote the success of the works by giving to the debenture-holders a pecuniary interest in them, and taking advantage of their knowledge of local requirements and native habits and wants.

DESPATCH to the GOVERNMENT OF INDIA, March 27, 1879, No. 105 (Fin)

MY LORD,

PARAGRAPH 1. In the 17th paragraph of my Despatch, dated the February last, No. 62, regarding outlay on works intended to give protection from famine, I intimated my intention of addressing your Excellency on the question of expenditure on public works.

2. The policy of constructing productive works by the direct agency of the Government with borrowed money had its origin, to a great extent, in the belief that such a course would prove more economical than that of employing the agency of guaranteed companies, and that, as the operations of the latter were gradually contracted, the transactions of the Government could be expanded without throwing a greater burden on the resources of the State.

3. The principles on which this policy was to be carried out are clearly defined in the 57th paragraph of the Marquis of Salisbury's Financial Despatch of the 23rd July 1874, No. 387, in the following words:—"that only works which will repay the interest on the money expended on them are to be excluded from charges against income; that the utmost care be observed in the undertaking and prosecution of such works; and that the necessary funds for public works extraordinary be obtained in India."

4. Subject to these conditions, money has been from time to time borrowed for the execution of productive works, the only recognised limit to the amount in recent years having been the capability of the local money market to supply the necessary funds. The forecasts which have been occasionally prepared are sketches of intended operations, but are necessarily subject to great changes, and have not received the formal sanction of the Home Government.

5. This position is not, in my opinion, satisfactory. A rate of expenditure from borrowed money which might have been proper and desirable a few years ago may, from the altered condition of the finances, become impracticable or dangerous; and if the loans for public works are carried to the full extent that the Indian market will bear, it is evident that in any sudden emergency, such as a war or famine, there is no resource but to apply to Parliament for power to raise a loan in London.

6. I do not overlook the fact that changes of policy, involving sudden retrenchment, to be followed perhaps in a few years by a great expansion of operations, are likely to prove wasteful; but this argument loses its force when the necessity exists for permanent reduction of expenditure, such as has in my opinion become absolutely requisite in regard to productive works.

7. In the 42nd paragraph of your Excellency's letter, dated the 13th October 1876, No. 368; you made use of the following language:—"We have also, in accordance with your Lordship's repeated instructions, resolved to reduce our expenditure upon public works classified as extraordinary within the limit of the amount which we may find ourselves able to borrow in India on adequately advantageous terms. What this amount may be, experience only can decide; but we cannot prudently estimate it, even at the outset, at more than 2 or 2½ crores of rupees a year, and for a permanency it may prove to be even less than this sum."

8. Notwithstanding this expression of opinion, I find that the outlay of capital on productive works has considerably exceeded, in recent years, an average* of four millions per annum. So great an expenditure cannot be justified in the present state of the finances, and, while I perceive with satisfaction that the amount estimated to be laid out in the coming year is much below that of the past two years, I consider it still to be at least a million higher than is proper for the normal rate of expenditure. Accordingly, on the 11th instant, I informed you by telegram, that your "productive works expenditure must be reduced as speedily as possible to rate of 2½ millions annually."

9. Considering it essential that some adequate supervision should be exercised over the limit of expenditure on productive works, I request that in the autumn of each year a programme may be submitted for my approval, showing the principal undertakings of that nature with which you intend to make progress in the next official year, the expenditure contemplated during the year, and the mode in which you propose to

necessary funds, which must be carefully limited by economical considerations, events must never exceed what can be borrowed in India on moderate terms. I have also to remind your Excellency that in the public works letters noted in the margin* forecasts of expenditure during the ensuing five years on remunerative public works were transmitted. The period to which those forecasts related having expired, I shall be glad to receive a report comparing them with actual results, and to learn whether any further forecasts have been or will be made.

I have, &c.

CRANBROOK.

No. 16.

LETTER from the GOVERNMENT OF INDIA, April 4, 1879, No. 71 (Railway).

MY LORD,

WE have the honour to solicit confirmation to our proceedings in authorising, at an estimated cost of 32½ lakhs, the construction of a metre gauge railway, 87 miles in length, between Cawnpore and Farrukhabad.

2. The line has been under consideration for several years, first as a part of the East Indian Railway system, but latterly as a local line to be constructed out of funds raised by local subscription on terms not dissimilar to those on which the Muttra-Hathras Railway was constructed.

3. The distress prevalent in the North-western Provinces during 1877-78 forced us, in anticipation of further proceedings for collecting money, to put the works on the railway in hand, with a view to provide occupation for the people deprived of the means of living by the failure of the autumn harvest in 1877. Considerable progress has been made with the works since our orders were issued in February 1878, and the local government now wish to have the line completed as a provincial productive public work, under the conditions laid down in the accompaniments to our Financial Despatch of the 2nd May 1878, No. 186.

Page 9.

4. The railway will be inexpensive in construction, and will, as far as we are able to judge, when built and equipped, be no burden on the local finances. It follows the general line of the public road, cutting off angles, and there are only two large streams on its entire length. The grades and curves are easy, and the alignment has been carefully examined and approved by our consulting engineer for State railways. It is proposed to lay down and moderately equip a thoroughly good road of our standard metre gauge type, well ballasted, with the full complement of sleepers, but with only such station buildings and appliances as are absolutely necessary for the safe carriage of traffic. All other works are to be deferred till the line yields interest on the first outlay.

5. We think the local authorities have taken a wise course in insisting upon strict economy in first outlay; but, from the returns of traffic that have been submitted, it is not improbable that the demands of the public will compel them to supply more conveniences at stations and put more equipment on the road, and thus eventually add, as it has done in so many instances already, to the sanctioned estimates of the undertaking.

6. These returns of traffic show that about 300,000 people and 40,000 tons of goods pass annually over the road and river which now connect the two termini of the line. Some of this traffic will, after the opening of the railway, still undoubtedly adhere to the old routes, but, on the other hand, the railway will call out traffic now suppressed by the difficulties and the cost of carriage. It is a very safe assumption to calculate that traffic on a railway will not be less than the traffic on all old routes combined, notwithstanding that these routes do not altogether fall into disuse on its opening. On this assumption, even with working expenses as high as 66 per cent., the net earning on the line will yield more than 4½ per cent. on its cost.

We have, &c.

A. J. ARBUTHNOT.
A. CLARKE.
W. STOKES.
A. R. THOMPSON.

No. 17.

DESPATCH to the GOVERNMENT OF INDIA, April 10, 1879, No. 43 (Railway).

MY LORD,

PARAGRAPH 1. I have received your Excellency's Financial Letter, No. 56, of the 21st February last, stating in reply to my Railway Despatch, No. 141, of the 31st October 1878, that the Government of Bengal have agreed to guarantee, from provincial resources, interest at the rate of $4\frac{1}{2}$ per cent. per annum, on the capital expended on the construction of the extension of the Rangpur branch of the Northern Bengal State Railway to the Tista River. Page 31.

2. I presume, although it is not so stated, that in this case the direction given in my Financial Despatch, No. 267 of the 31st July 1878, "that no authority should be given to provincial governments to enter on any productive work of which the whole amount of charge proposed to be granted as a loan from the Government has not been provided in the general budget," has been followed. Page 29.

3. If, however, this is not so, you will of course not proceed further with the work, until due provision can be made for the funds in accordance with the directions of the said Despatch.

I have, &c.
CRANBROOK.

No. 18.

EXTRACT from TELEGRAM from the VICEROY, May 1, 1879.

CHIEF saving contemplated is in public works. No new works, even if already sanctioned, to be commenced by any provincial government, or department under the Government of India, without special orders of Supreme Government. Further details will be settled by Government of India with each provincial government. Large reductions will also be made in expenditure on productive public works.

No. 19.

LETTER from the GOVERNMENT OF INDIA, May 15, 1879, No. 135 (Financial).

MY LORD,

IN reply to your Financial Despatches No. 267 of 31st July 1878, and No. 443 of 12th December 1878, we have the honour to report the following particulars of the mode in which the capital required for the Patna-Gaya Railway has been provided, the resources from which the receipts are anticipated, and the prospects which have satisfied us of the financial soundness of the work. Pages 28 and 30.

2. The works, as your Lordship is aware, were put in hand in March 1878, and a portion of the line is actually open for limited traffic. It follows, for the first 30 miles, the alignment of the public road; for the remaining 27 miles the old road was not found suitable for a railway, and the new work is entirely distinct. There are no grades on the railway worse than 1 in 300. There are to be eight passenger stations, inclusive of the terminal station at Gaya and the junction with the East Indian Railway at Bankipur. The sanctioned cost of the railway, which is on the broad gauge with 60 lbs. rails on pot sleepers, is Rs. 31,75,000,* or at the rate of Rs. 54,000 a mile; but this does not include ballast, fencing, permanent buildings except at one station, goods sheds, workshops, or rolling stock.

3. The intention is, we believe, to work the line for the present through the East Indian Railway Company, and without for the present completing its outfit; eventually, about 14 $\frac{1}{4}$ lakhs must probably be spent upon such completion.

4. The financial prospects of the line appear to be remarkably good; about 24,000 tons of goods and about 510,000 passengers a year pass over the road between Patna and Gaya; assuming that three fourths of this traffic will be carried by rail, at a rate of about 8 pies per ton per mile for goods and 3 pies per mile for passengers, the gross receipts would average about Rs. 3,83,000 a year. If half this sum can be secured as net traffic earnings, it will yield interest, on an ultimate capital cost of 46 lakhs, of nearly $4\frac{1}{2}$ per cent.

* Should be Rs. 30,75,000.

5. It was intended to raise a portion, at least, of the funds for the construction of the railway by means of a local debenture loan; and though, by reason of the delay which attended the sanction of this class of loan, a Patna-Gaya Local Debenture Loan has not yet been issued, it is still possible that such a loan may be raised. Meanwhile, we are advancing funds from the public treasury on the responsibility of the Government of Bengal, which will pay interest thereon at $4\frac{1}{2}$ per cent. The provincial resources of Bengal are ample to ensure the Imperial Treasury against any loss upon these advances.

6. We apologise for the delay which has occurred in the transmission of this Report. This delay is to be explained by the circumstance that the Patna-Gaya line is the first constructed under the rules for the construction of provincial productive public works, and that their provisions were not at first thoroughly understood.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
J. STRACHEY.
E. B. JOHNSON.
W. STOKES.
A. R. THOMPSON.

No. 20.

EXTRACT from LETTER from the GOVERNMENT of INDIA, May 22, 1879, No. 138 (Financial).

Page 33.

6. YOUR Lordship's Financial Despatch, No. 105, dated the 27th March 1879, has directed that a reduction of the expenditure on productive public works to the rate of two and a half millions annually be carried out as speedily as possible. On this subject we shall address your Lordship separately hereafter, but meanwhile every effort will be made to give effect to your Lordship's instructions.

7. We have also resolved to make an important reduction in the expenditure on ordinary public works from imperial and provincial funds.

8. We forward herewith, for your Lordship's information, a resolution, No. 649, dated the 19th instant, showing the extent to which we have determined to endeavour to reduce the expenditure on public works under both the productive and ordinary heads. Taking as the standard of comparison the estimated expenditure for the current year, it will be seen that we hope eventually to secure altogether in works and establishments an annual saving of 1,000,000*l.* on productive works, and of 758,000*l.* on the ordinary imperial and provincial grants.

9. Taking both classes of public works together, the reduction contemplated in establishments amounts to the large sum of 535,000*l.* We shall doubtless again have to address your Lordship on the serious question of how this large reduction can best be effected.

10. We cannot at present make an estimate of the relief which these measures will give to the budget of the current year. We shall spare no efforts for the immediate reduction of expenditure, but we cannot hope to obtain until next year the full advantage which is contemplated. Even then there will undoubtedly be a serious set-off on account of pensions and other forms of compensation to the officers with whose services it will be necessary to dispense. In regard to the productive works, the estimate for the current year is already, as your Lordship is aware, more than 1,000,000*l.* below the expenditure of the last two years, and lower than it has been for many years past. Although we shall make all further reductions that are practicable without serious loss, we do not anticipate being able to diminish very largely the expenditure under this head during the current year, but the full reduction will be carried out in 1880-81.

11. We do not propose in this Despatch to discuss the circumstances which have rendered it necessary to undertake these reductions in the expenditure on public works in India. The result will undoubtedly be that the material progress of the country will be seriously retarded; and we in no way disguise from ourselves the injury which India will sustain, or the discredit which will be entailed on the Government, by even the temporary abandonment of a policy which we are satisfied is essentially wise, and

which, in spite of many errors, has been on the whole attended with eminent success. The measures which we now take with so much regret have been forced upon us by circumstances over which we have no control, and for which our Government is in no degree responsible.

Enclosure in No. 20.

RESOLUTION of the GOVERNMENT of INDIA, May 19, 1879, No. 649.

In furtherance of this resolution, the Governor General in Council has determined to take the following measures for the reduction of the public expenditure on public works.

2. The grants for expenditure on public works in 1879-80 amount to Rs. 16,01,60,000 as follows :—

Grant.	Rs.
31. Public Works Ordinary	4,89,50,000
32. Irrigation and Navigation	1,03,50,000
33. Guaranteed Railways	5,54,10,000
34. State Railways	99,50,000
35. Madras Canal Company	5,00,000
39. Productive Public Works, Capital Expenditure	3,50,00,000
	<u>16,01,60,000</u>

3. The present resolution does not affect grants 33 and 35, or the provision made for the working expenses of canals and State railways, as follows :—

In Grant.	Rs.
32	39,10,000
34	90,10,000
Total	<u>1,29,20,000</u>

4. There remains the sum of Rs. 9,13,30,000, as follows :—

Grant.	Rs.
31. Public Works Ordinary	4,89,50,000
32. Irrigation and Navigation	64,40,000
34. State Railways	9,40,000
39. Productive Public Works, Capital Expenditure	3,50,00,000
	<u>9,13,30,000</u>

5. Of this sum of Rs. 9,13,30,000, the grants for establishments aggregate Rs. 2,01,00,000, leaving for works without establishments Rs. 7,12,30,000.

6. In the Despatch now read, the Secretary of State has decided that the capital expenditure on productive public works must be reduced by Rs. 1,00,00,000, of which the cost of establishments may, for the present purpose, be estimated at one fifth, or Rs. 20,00,000, and the cost of works without establishments, at four fifths, or Rs. 80,00,000.

7. The Governor General in Council has now decided that the grants detailed in paragraph 4 must, from the beginning of 1880-81, be reduced, without establishments, from Rs. 7,12,30,000 to Rs. 5,90,00,000, or by Rs. 1,22,30,000, as follows :—

	Rs.
Productive Public Works, Capital Expenditure	80,00,000
Public Works Ordinary	42,30,000
	<u>1,22,30,000</u>

8. The maximum proper establishments for an expenditure of Rs. 5,90,00,000 may be estimated to cost, at 25 per cent. (which is probably, really, much too high), Rs. 1,47,50,000; so that the whole expenditure on these works must be strictly limited, in future, to Rs. 7,37,50,000, as follows :—

	Rs.
Works	5,90,00,000
Establishments	1,47,50,000
Total Works and Establishments	<u>7,37,50,000</u>

Divided into—

	Rs.
Public Works Ordinary - - - - -	4,87,50,000
Productive Public Works, Capital Expenditure - - - - -	2,50,00,000
Total - - - - -	<u>7,37,50,000</u>

9. As compared with the grants for 1879-80, detailed in paragraph 4, this involves a reduction of Rs. 1,75,80,000, thus distributed :—

	Rs.
From Local Funds - - - - -	Nil.
From Imperial and Provincial Funds for Ordinary Works - - - - -	75,80,000
From Imperial and Provincial Funds for Productive Public Works - - - - -	1,00,00,000
Total - - - - -	<u>1,75,80,000</u>

10. If it may be assumed that there are no superfluous establishments paid from local funds, the reduction thus determined may be classified as follows :—

	Works.	Establishments.
	Rs.	Rs.
Public Works Ordinary - - - - -	42,30,000	33,50,000
Productive Public Works - - - - -	80,00,000	20,00,000
	<u>1,22,30,000</u>	<u>53,50,000</u>
	1,75,80,000	

11. Again, the grants of Rs. 9,13,30,000, detailed in paragraph 4, may be thus distributed :—

	Rs.
Productive Public Works, Capital Expenditure - - - - -	3,50,00,000
From Local Funds - - - - -	1,35,97,000
From Imperial and Provincial Funds - - - - -	4,27,33,000
	<u>9,13,30,000</u>

12. As the Government of India does not desire to interfere with the expenditure from local funds, and as the imperial finances would not directly benefit by any saving of such funds, the whole retrenchment of Rs. 75,80,000, which is to be made from the ordinary grants, must fall upon the Rs. 4,27,33,000 granted from imperial and provincial funds, which will, accordingly, be reduced, after the current year, to Rs. 3,51,53,000.

13. Following, roughly, the proportion of the expenditure on public works ordinary, detailed in paragraph 4, provided from imperial and provincial resources respectively, it may be estimated that four sevenths of the retrenchment of Rs. 75,80,000 will fall upon imperial, and the remaining three sevenths upon the provincial grants, as follows :—

	Rs.
Imperial Works - - - - -	24,00,000
„ Establishments - - - - -	19,30,000
Total - - - - -	<u>43,30,000</u>
Provincial Works - - - - -	18,30,000
„ Establishments - - - - -	14,20,000
Total - - - - -	<u>32,50,000</u>

These proportions, however, are given only as a basis for present action, and they can, if necessary, be re-considered.

14. No further reference is necessary in the present resolution to the Rs. 18,30,000 assumed to be thus saved upon provincial works, without establishments; and it is not necessary that the local governments should be addressed in the Public Works Department on the subject. Account will be taken of these retrenchments in the general reduction of the provincial assignments, which will, hereafter, be the subject of a separate resolution in the Financial Department, after the local governments have been consulted.

15. The grants for Imperial Public Works Ordinary included in the sum of Rs. 9,13,30,000, detailed in paragraph 4 (amounting to Rs. 2,33,34,000), will be reduced for 1880-81 by not less than Rs. 24,00,000 for works alone, as stated in paragraph 13. The extent to which it will be possible to reduce the same grants for establishments next year will depend upon the progress made in the reduction of those which are superfluous.

16. Meanwhile, measures should be immediately adopted in the Public Works Department for the reduction, to the greatest practicable extent, of the expenditure during the current year 1879-80 on the ordinary account. The reduction which will take full effect next year should, so far as may be possible, be obtained in the current year also. All practicable reduction must also be effected in the current expenditure on productive public works; but the contemplated reductions under this head cannot have full effect till next year, nor is it desired that works should be stopped if their stoppage would lead to serious loss.

17. The whole amount of establishments to be reduced is, as shown in paragraph 10, Rs. 53,50,000, which may be divided roughly as follows :—

	Rs.
Productive Public Works, Capital Expenditure -	20,00,000
Imperial and Provincial Public Works Ordinary -	33,50,000
Total -	<u>53,50,000</u>

18. The question how so large a reduction can be effected most speedily, and with the least injury to the interests both of the State and of individuals, should be immediately considered in the Public Works Departments. It is urgently necessary in the public interests that no delay which can possibly be avoided should be allowed to occur in the adoption of all practicable expedients for this object.

19. The Governor General in Council will be ready to consider favourably any measures which may be suggested for mitigating the hardship which will inevitably result from these orders to many deserving officers. It is especially desirable that as many officers as possible should be induced to retire voluntarily from the service, whether they are employed in the Public Works Department as royal or civil engineers, or are military officers whom it may be found necessary to relegate to military employ in the Military Department.

20. The Government of India cannot recall sanctions already given to capital expenditure on railways which are the property of companies on whose capital interest is guaranteed from the revenues of India. But, so far as the contracts with such companies allow any option to the Government of India, no fresh capital expenditure will be sanctioned, or should be recommended, which is not absolutely necessary for the development of traffic or the profitable working of the lines.

21 The Government of India will also employ all the powers vested in it to promote the most economical administration of these lines that is compatible with complete efficiency; and a like economy must be enforced on all State railways and canals.

No. 21.

LETTER from the GOVERNMENT OF INDIA, June 16, 1879, No. 166 (Financial).

MY LORD,

WE have the honour to forward herewith copy of our proceedings in the Financial Department for the month of March 1879, Nos. 158 to 167 (accounts and finance), on the subject of the construction, by a private company, of a light railway between Dibrugarh and Sadiya in Assam.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
J. STRACHEY.
E. B. JOHNSON.
W. STOKES.
A. R. THOMPSON.

Enclosure in No. 21.

The SECRETARY to the GOVERNMENT OF INDIA to the CHIEF COMMISSIONER OF ASSAM,
March 20, 1879, No. 1354.

I AM directed to acknowledge the receipt of your letter in the Public Works Department, No. 73, dated 25th January 1879, submitting a proposal for making certain concessions and guarantees to Messrs. Shaw, Finlayson, and Company, in consideration of their undertaking to form a company to construct and work a light railway between Dibrugarh and Sadiya. The proposal, which involves a guarantee from provincial revenue for five years, is strongly supported by you, both in the interests of the progress and development of the province of Assam, and on account of the relief which the scheme, if carried out, will afford to provincial public works expenditure.

2. In reply, I am directed to state that, after full consideration, the President in Council is prepared to authorise you to give the required guarantee from provincial revenues. But the conditions on which you propose to give that guarantee, as set forth in the memorandum of heads of proposed agreement enclosed in your letter under reply, should be modified as shown in the attached paper.

3. If Messrs. Shaw, Finlayson and Company are prepared to accept the modifications, you should place yourself in communication with the Government solicitor and get a formal deed prepared. This deed, before engrossment and execution, should be submitted to the Government of India in the Public Works Department for approval. The cost of preparation of such deed will be borne by Messrs. Shaw, Finlayson, and Company.

DIBRUGARH TO SADIYA RAILWAY.

Memorandum of proposed heads of agreement as sent up by Chief Commissioner of Assam.

Clause I. The company to undertake the construction of a railway of a description to be approved by Government, extending from the terminus of the steamer lines on the bank of the Brahmaputra River, near Dibrugarh, along the Government road towards Sadiya to the 51st mile, with such branches as may be approved by Government.

Clause II. The company to maintain the said railway in good order, and to carry on the work of common carriers upon it at rates and fares within the maximum limits laid down in the attached schedule, and to work at least one train each way daily over its whole length.

Clause III. The Government to give the company free of cost the use of such portions of the Sadiya, Jaipur, and Rangagora roads as may be required to lay the railway on, provided that the company engage to reserve a strip of each of the said roads, not less than 12 feet wide continuously along one side of the railway, for use as a common road, and provided also that, in the event of the exigencies of the railway requiring more of the breadth of the roads to be used than will admit of a strip of 12 feet being reserved on one side, as above described, the company will engage to widen or reconstruct the road in such a way as to preserve the prescribed width of 12 feet on one side for a common road.

Clause IV. The Government also to give the company free of cost such portions of Government land as may be required for the construction of any branch lines that may be approved by Government, and also the use of all roadside land now in the possession of Government which may be required by the company for the purpose of building stations, sidings, &c.

Clause V. When the railway is open throughout its length for public traffic, the Government shall give to the company a maximum annual subsidy of Rs. 80,000 for five years from the time when it is opened; provided that, if in any one year the net earnings of the company amount to 5 per cent. on their paid-up capital, the Government shall not be called upon to pay anything at all; and, similarly, the Government shall be called on to pay only such part of the maximum sum of Rs. 80,000 in any one year, as may be sufficient, when added to the net earnings of the company for that year, to make a sum equal to 5 per cent. on their paid-up capital.

Required alterations and additions.

The company to undertake to complete to the satisfaction of Government the construction and the equipment of a railway as per specification and schedule herewith attached, extending from the terminus of the steamer lines on the bank of the Brahmaputra River, near Dibrugarh, along the Government road towards Sadiya to the 51st mile, with such branches as may be approved by Government.

The company to maintain the said railway, road, and equipment in good order to the satisfaction of Government, failing which Government may, after 30 days' clear notice, step in and execute all required repairs at the expense of the company, and to carry on the work of common carriers upon it at rates and fares within the maximum limits laid down in the attached schedule, and to work at least one train each way daily over its whole length.

No alteration.

No alteration.

When the railway and road has been completed with its equipment to the satisfaction of Government as per specifications, and has been open throughout its length for public traffic, Government shall, at the expiration of twelve months from date of opening, and, for four years after, at the expiry of every subsequent twelve months, give to the company a maximum annual subsidy of Rs. 80,000 from the time when it is opened; provided that, if in any one year the net earnings of the company amount to 5 per cent. on their paid up capital, the Government shall not be called upon to pay anything at all; and, similarly, the Government shall be called on to pay only such

Clause VI. Should the company fail to perform the condition laid down in clause 2 for any time extending over 14 days in any one year, the Government to be at liberty to make a deduction from the subsidy payable under clause 5 for that year of a sum not exceeding $\frac{1}{365}$ th part of such subsidy for each day that the company may be in default; and, in case the default should extend over six months, the Government shall cease to be liable for any further payments or obligations under this agreement.

Clause VII. After the expiration of five years from the date of opening the railway, if the net profits of the company shall amount to a sum exceeding 12 per cent. of their paid capital, the Government to have the right to require the company to make such reductions in the tariff as it may deem fit, provided that such reductions shall not lead to a diminution of profits below 12 per cent.

Clause VIII. The company to carry the mails, troops, and stores of Government at rates not exceeding those now paid for their conveyance in the district concerned.

Clause IX. The company to be entitled to fell and use, without payment of royalty, any timber growing on Government land which may be required by them for the purposes of the railway, either in the original construction or subsequent maintenance of the line, and for fuel, but not for sale or export. This right to be limited to a period of five years.

Clause X. The company to have the option of contracting under a separate agreement for the maintenance of the strip of road mentioned in clause 3 as reserved for a common road.

Clause XI. The company to accept the position of common carriers under the Railway Acts that may be in force in India at the time, and to be constituted under a special Act of the Legislative Council of India, if necessary, which shall fix the relations between the Government and the company.

Clause XII. The accounts of the Company to be submitted in the forms fixed by Government for the accounts of State railways, and to be subject to audit by the Government accounts officers.

Clause XIII. All statistics of traffic required by Government to be furnished by the company.

Clause XIV.

part of the maximum sum of Rs. 80,000 in any one year, as may be sufficient, when added to the net earnings of the company for that year, to make a sum equal to 5 per cent. on their paid-up capital.

Should the company fail to perform the condition laid down in clause 2 for any time extending over 14 days in any one year, the Government to be at liberty to make a deduction from the subsidy payable under clause 5 for that year of a sum not exceeding Rs. 210 for each day that the company may be in default; and, in case the default should extend over six months, the Government shall cease to be liable for any further payments or obligations under this agreement, and shall have power to call on the company to remove their rails, sleepers, and plant, and to resume possession of the land, road, &c. ceded to the company, and to recover from the company the expenses it may have to incur in restoring the road to its original condition.

No alteration.

No alteration.

The company to be entitled to fell and use, without payment of royalty, any timber growing on Government land which may be required by them for the purposes of the railway, either in the original construction or subsequent maintenance of the line, and for fuel, but not for sale or export. This right to be limited to a period of five years, on the following conditions:—

1st. That the localities where the timber is cut on Government land by the railway company shall be only those selected, defined, and assigned by the Forest Department.

2nd. That no trees be cut by the company on Government land, except such as are marked for that purpose by officers of the Forest Department.

3rd. That all cut timber not removed on to the premises of the railway company before the date of the expiry of the five years' guarantee will become the property of Government.

No alteration.

No alteration.

No alteration.

No alteration.

Government to have power to purchase the railway, with its equipment, at the expiration of

Clause XV.

the first five years from date of opening, and at subsequent intervals of five years, by paying the company 20 per cent. in excess of the value, to be determined by arbitration, of their property as a dividend-paying investment. Government, in case of purchase, to be bound to keep up and work the railway as a State undertaking.

Government, during the period of five years over which the guarantee is to extend, to have the right to appoint two directors, and to require that all moneys received for the carriage of goods, passengers, or otherwise for use of the line, be paid into the Government treasury, that no sum be withdrawn and no reductions made from the maximum scale of fares or tolls laid down in the attached schedule, nor any contracts or orders, or directions, bearing on revenue receipts or expenditure, or the working of the railway, be given without the consent of the Government directors; and, further, that these directors have a right to examine all accounts, letters, &c. connected with the working of the railway and the revenue earnings and expenditure, and to disallow all charges not in their opinion legitimately debitable to revenue according to the rules that may be at the time in force on State railways in regard to the distribution of expenditure between capital and revenue.

14th March 1879.

J. S. T.

No. 22.

LETTER from the GOVERNMENT OF INDIA, June 23, 1879, No. 177A (Financial).

MY LORD,

WE have the honour to forward, for your Lordship's information, copy of a circular, which we have thought it desirable to send to all local governments and administrations, in explanation of the present financial position of the Government of India, and of the circumstances under which the late orders have been issued regarding the reduction of expenditure and the revision of the provincial assignments.

We have, &c.

LYTTON,

F. P. HAINES.

A. J. ARBUTHNOT.

A. CLARKE.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

A. RIVERS THOMPSON.

Enclosure in No. 22.

CIRCULAR LETTER from the GOVERNMENT OF INDIA to all LOCAL GOVERNMENTS AND ADMINISTRATIONS, June 16, 1879, No. 1291.

SIR,

By his resolution, No. 410 of the 1st ultimo, the Governor General in Council communicated to the local governments and administrations a general statement of the measures which he proposed to take for the reduction of the public expenditure. It was, at the same time, announced that it had become necessary to revise the existing financial arrangements with the local governments, with the object of obtaining relief to the Imperial Treasury, and averting, so far as possible, the necessity of imposing on the country fresh burdens, whether imperial or provincial. The Governor General in Council stated his intention of immediately placing himself in communication with the several local governments, and of consulting them in regard to the particular measures which should be adopted for the attainment of that object.

2. These communications have already commenced, and his Excellency in Council thinks that it may facilitate the settlement of the questions which remain to be considered if he now gives to the local governments a sketch of the present financial position of the Government of India.

3. The financial statement for the current year 1879-80, published on the 13th March last, was drawn up under very exceptional circumstances. They are well known to the local governments ; but it may, nevertheless, be convenient to recapitulate them, and it will thus be easier to show clearly the important changes in the financial position of the empire which have taken place since the commencement of the official year. Page 304.

4. Early in 1878 the Government of India declared the necessity of recognising the fact that the obligations entailed on the Government by the periodical and inevitable recurrence of famine must be provided for among the ordinary charges of the State. As soon as it was admitted that famines must be looked on, not as abnormal or exceptional calamities, but as certain, from time to time, to recur, it became obvious that sound financial policy obliged the Government to reject altogether the expedient of trusting to borrowing to meet the charges which they entailed, and that it was essential to make such an improvement in the financial position of the Government as would enable it to meet those charges from its ordinary revenue. This could only be done by securing in years of normal prosperity a surplus sufficient to meet the excess expenditure which must be incurred in time of famine.* Page 286.

The Government decided that the amount of financial improvement necessary to enable it to undertake these new burdens could not safely be estimated at less than 1,500,000*l.* a year. The net imperial resources had, therefore, to be increased by that amount on account of famine alone.

5. 400,000*l.* a year was provided without any fresh taxation, either imperial or provincial, by administrative changes and improvements. The remaining 1,100,000*l.* was furnished by additional taxation ; and thus the requisite sum of 1,500,000*l.* was made good.

The manner in which it was proposed actually to apply this surplus has often been explained. The public debt was to be reduced, or its growth prevented, to the extent of 1,500,000*l.* a year, and thus resources were to be stored up in years of prosperity, by means of which, when famine actually occurred, it would be possible to discharge the heavy obligations which would then fall upon the State.

6. In the first statement made on the subject in the Legislative Council on the 27th December 1877, Sir John Strachey spoke as follows :— Page 205.

“ It is the firm intention of the present Government to apply the funds, now to be provided for this special purpose, strictly to the exclusive objects which they were designed to secure. In such matters, no doubt, governments cannot fetter their successors, and nothing that we could now say or do would prevent the application of this fund to other purposes. Without thinking of a future far removed from us, events might of course happen which would render it impracticable even for us, who have designed these measures, to maintain our present resolutions. So far, however, as we can now speak for the future, the Government of India intends to keep this million-and-a-half as an insurance against famine alone. In saying this, I should explain, that we do not contemplate the constitution of any separate statutory fund, as such a course would be attended with many useless and inconvenient complications, without giving any real security. Unless, then, it should be proved hereafter by experience that the annual appropriation of a smaller sum from our revenues will give to the country the protection which it requires, we consider that the estimates of every year ought to make provision for religiously applying the sum I have mentioned to this sole purpose, and I hope that no desire to carry out any administrative improvement, however urgent, or any fiscal reform, however wise, will tempt the Government to neglect this sacred trust.”

7. These assurances have frequently been repeated. The Governor General in Council has never swerved from his resolution ; he is at this moment as firmly determined as ever to maintain that resolution in all its integrity, and he has, he hopes, succeeded in maintaining it, in spite of circumstances altogether beyond his control, and of exceptional and extreme difficulty.

8. At the beginning of the last financial year, 1878-79, the Government of India believed that it had not only secured the annual surplus of 1,500,000*l.*, required for the protection of the country against famine, but an additional surplus of nearly 500,000*l.* to meet unforeseen contingencies. In the course of the year, however, circumstances occurred which made a very grave alteration in the financial position of the Government. The exchange value of the rupee fell to a most serious extent, and the country became involved in war. Notwithstanding these untoward events, the Government was able to meet from its revenues the whole charges of the war to the end of 1878-79, amounting to 670,000*l.*, to spend 555,000*l.* on famine relief, and in addition to all this a surplus of 1,300,000*l.* for famine insurance remained. Although the surplus of the year was increased by special causes, the hopes and assurances of the Government in regard to the provision of means for protecting the country against famine were, in 1878-79, more than fulfilled.† The accounts of the year not having yet been closed, the figures now given are necessarily open to some correction, but there can be no doubt of the substantial accuracy of these conclusions. Page 304.

9. When three months ago the budget arrangements for the present year had to be made, the war still continued, and the fall in the exchange with London had become still more serious. Although the help expected from the British Treasury relieved the Government from immediate anxiety on account of the expenses of the war, it was impossible to say how long the war might continue, or what charges it might ultimately entail. The prospect presented by the further diminution of the exchange value of the rupee was, however, a cause of far greater financial apprehension.

* Financial statement for 1878-79, paragraph 15.

† See Financial statement for 1879-80, paragraph 159.

10. It may be assumed that India has now to pay and raise in the year by taxation, on account of the home charges, a sum exceeding by about 3,000,000*l.* what would have been necessary if the exchange had remained at the rate prevailing before the long standing equilibrium between gold and silver was disturbed.* The estimates of the present year were worse by 1,364,000*l.* than they would have been if the exchange could have been taken at the same rate as that taken for 1878-79. This additional charge exceeded by about a quarter of a million the whole sum yielded by the new taxation imposed for the protection of the country against famine. In every other respect the condition of the finances was satisfactory. But for this cause there would have been, apart from the war, a real surplus, on the estimates of the year, of more than 2,000,000*l.* As matters actually stand, this surplus, after allowing for the loss of revenue caused by the partial remission of the duties on cotton goods, has been reduced to about 800,000*l.*†, a sum less by 700,000*l.* than the surplus of 1,500,000*l.* required on account of insurance against famine alone, and less by 1,200,000*l.* than the total surplus of 2,000,000*l.*, which the Government of India has repeatedly declared to be required and which it believed a year ago that it had secured.

11. The question whether this most serious and indefinite growth of the charges on account of loss by exchange could be prevented by an alteration in the law regulating the currency of India has, it is generally known, been long under the anxious consideration of the Government. If, as some authorities maintained, it could be shown to be in the power of the Government to apply, by this means, and without injury to the country, a sufficient remedy for the evil, it was clear that this course should be adopted. If, on the other hand, no such remedy was possible, other measures for the improvement of the financial position of the Government were not less clearly requisite. It seemed to the Government of India that this question must be settled before any measures for imposing new taxation, or for reducing really useful expenditure, could properly be adopted. The Governor General in Council accordingly reported this conclusion, with a full statement of his own views, to the Secretary of State; he said that, in the event of sufficient proof being given, within a reasonable time, that, through an alteration in the currency law, or by the operation of other causes, a permanent recovery of the exchange could be anticipated, "it would be prudent to accept the temporary loss of the surplus—
" secured by the arrangements made at the commencement of the present financial year, by which we
" had hoped that an insurance against famine had been provided for the people of India. We feel,
" however, that a final judgment on the question of policy cannot long be delayed, without loss of
" character to the Government and serious danger to the country."

12. When the financial statement for the present year was published, this question was under the consideration of Her Majesty's Government, and the fact was announced in paragraph 280 of the statement. It was said that it was not desirable to enter further into the subject, "until Her Majesty's Government has had time to mature its decision in regard to the measures which ought to be taken." It was added that although, for the present, the Governor General in Council thought it wise to abstain from imposing any fresh burdens on the country, and to accept the temporary loss of the famine insurance surplus, he would "in no degree abandon the imperative duty of making, to the utmost of his ability, provision for protecting the country against famine. He still believes
" that a surplus of 1,500,000*l.* a year, in ordinary times, is necessary to cover this liability alone."

13. It still appears to the Governor General in Council that no other conclusion could, under the circumstances of the case, have been reasonably adopted; and this conclusion, which was rendered desirable by the position of the question of exchange, would, if no such question had arisen, have been rendered necessary by the war. The Government of India has always declared that circumstances calling for seriously increased expenditure of a temporary character might occur in which it would be wise to accept the temporary suspension of the famine insurance surplus as the lesser of two evils. This was the policy which the Government of India resolved, under the circumstances described, to adopt at the commencement of the present year; and, although it was unfortunate that the contingency which had been foreseen as possible, should have occurred so soon after the arrangement for the protection of the country against famine were supposed to have been completed, the Governor General in Council has no doubt that the proper course was taken.

14. Although the Governor General in Council thus resolved to await the decision of Her Majesty's Government on the important question which was under its consideration, he did not, on this account, neglect the duty of being prepared to take immediate action, if that decision should render it necessary to abandon the expectation that some relief from the increasing difficulties caused by the fall in the value of silver in relation to gold might be found by altering the law by which the currency is regulated. The official orders of the Secretary of State, to the effect that measures in this direction appeared impracticable, were issued on the 19th May; but their purport was known to the Government of India a few weeks earlier. About the same time it became possible to look forward with confidence to the termination of the war, and to the removal of the anxiety which was felt on this account when the financial statement was made. On the 1st May the resolution referred to in the first paragraph of this letter was published, declaring that immediate measures must be taken for the reduction of the public expenditure in all its branches, and for the revision of the arrangements between the imperial and provincial governments. The Governor General in Council has no doubt that everyone will agree in the opinion that, however unfortunate may be the necessity for these measures, it was the duty of the Government to take them rather than impose fresh taxation.

15. The orders that have already been issued provide for a reduction next year of 733,000*l.* on the ordinary imperial and provincial grants for public works, and stringent measures are being taken for the reduction, at no little sacrifice, of the central establishments of the Government of India. The

* Financial statement for 1879-80, paragraph 276.

† Financial statement for 1879-80, paragraph 265.

amount by which the revision of the provincial assignments will increase the resources of the Imperial Treasury cannot now be stated, but there can be no doubt that it will be considerable. The Governor General in Council hopes, by the various measures in progress, to obtain in the civil departments alone an improvement in the finances which may, with the active co-operation of the local governments, amount to 1,000,000*l.*; against this, however, there must be a serious set-off on account of pensions and other forms of compensation to the officers with whose services it will be necessary to dispense.

16. With the object of examining into the whole question of military expenditure in India, and the possibility of reducing it without interfering with the efficiency of the army, a commission of experienced military and civil officers, under the presidency of Sir Ashley Eden, has been appointed. An investigation by a committee, under the presidency of the Earl of Northbrook, is also going on at the present time in London, into the question of the home military charges. The Governor General in Council cannot now say anything in regard to the probable results of these inquiries in this country and in England, but it is his earnest hope and expectation that they will prove beneficial in a high degree to the interests of India.

17. It has been shown, in the 10th paragraph of this letter, that the sum of 700,000*l.* must be provided to restore in its integrity the surplus of 1,500,000*l.* required as an insurance against famine. The reductions of expenditure, and the other measures which have already been taken, have more than covered this amount. It may therefore be confidently said that the Government of India has already, without imposing fresh burdens on the people, made provision for securing the full amount of the surplus originally declared necessary for protecting the country against famine, as well as for recouping the loss of revenue caused by the reductions lately made in the duty on cotton goods.

18. In saying this, it is of course assumed that no fresh causes will lead to a large increase of expenditure, or to a large falling off in the revenue. With the single exception of the loss by exchange, no cause of financial anxiety is now apparent; but how serious this exception may prove in the future has unfortunately been shown most forcibly by the experience of the past. This indefinite and uncontrollable liability throws an element of doubt into all the financial arrangements of the Government; it is this liability which has rendered necessary the stringent measures which have been taken for reducing expenditure on works most useful to the country, and essential to its rapid progress; which has obliged the Governor General in Council to disturb, to some extent, the satisfactory relations established between the supreme and provincial governments, and has made it impossible to say that India may not have to submit hereafter to further sacrifices. His Excellency in Council is not on this account less firm in his resolution to maintain the finances of the empire in a thoroughly sound condition, nor is he less confident of complete success in carrying that resolution into effect.

19. The local governments are aware that it has been decided to reduce very largely the expenditure, not only on ordinary public works, but, in accordance with the instructions of the Secretary of State, on productive works also. His Excellency in Council does not disguise from himself the serious injury which must be caused by even the temporary restriction of a policy followed for many years past with eminent success, and which, in spite of all mistakes, has promoted to an extraordinary degree the material progress of the country. The Government of India greatly regrets the unfortunate necessity under which, by causes altogether beyond its control, it has thus been placed.

20. Rigid economy in every branch of the public service is, in present circumstances, the policy which must be followed. To quote again the words of the resolution of the 1st May :—

“ Unless positive necessity exists, no improvements in administration, however desirable, must be undertaken if they involve increased charges; no fresh establishments must be entertained; no new offices must be created; no new works, which it is possible to postpone, must be commenced.”

It is through this policy of retrenchment and economy that the necessity for fresh taxation has for the present been avoided; and, if the fall in the value of silver in relation to gold should further increase, strict adherence to that policy will be more than ever essential. The Governor General in Council knows that every local government and administration in India will give to him its loyal support in carrying out the measures which he has resolved to adopt.

I have, &c.

R. B. CHAPMAN,
Secretary to the Government of India.

No. 23.

DESPATCH to the GOVERNMENT OF INDIA, June 26, 1879, No. 83 (Railway).

MY LORD,

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PARAGRAPH 1. I have had before me in Council your Letter, No. 71, of 4th April last, applying for confirmation of the sanction given by your Government to the construction of a metre gauge railway from Cawnpore to Farrukhabad, at an estimated cost of 31½ lakhs.

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2. Observing from the papers transmitted with your letter on the subject, that orders for the commencement of this railway were issued in October of last year, I feel bound to point out that application for confirmation of a sanction on which considerable action had already been taken can never be much more than an empty form, and to add that the rule requiring the previous sanction of the Home Government for every undertaking estimated to cost 100,000*l.* or upwards was certainly not meant to be regarded as a mere formality. In the case of the Cawnpore and Farrukhabad Railway, such sanction, if asked for more distinctly than by the allusion made to it in your Financial Letter, No. 186, of 2nd May 1878, would not have been refused; but it was not the less important that some alternative should have been left to me other than that of allowing the work to proceed precisely as if the prescribed sanction had already been given. I must request that the rule to which I have referred be strictly adhered to in future.

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3. It appears that the cost of the work is to be provided for by a loan from the Supreme Government, payment of interest thereon being guaranteed by the governments of the North-west Provinces and of Oudh. I presume that, conformably to the instruction conveyed by my Financial Despatch of 31st July last, such portion of the loan in question as may be needed for immediate disbursement has been introduced as an item into the general budget for the current year.

4. It is also explained in your Excellency's letter under reply, that the present estimate of 31½ lacs provides only for such requisites as are absolutely indispensable, and that public convenience may ere long create a demand for additional expenditure. I request, however, that no outlay beyond the amount already sanctioned be incurred without previous reference to me, accompanied by such evidence as may satisfy me that interest on the whole outlay, inclusive of the increased cost, is likely to be fully covered by net receipts.

I have, &c.

CRANBROOK.

No. 24.

LETTER from the GOVERNMENT OF INDIA, July 10, 1879, No. 181 (Railway).

MY LORD,

WE have the honour to forward papers regarding some lines of railway that have been or are about to be constructed in the North-western Provinces, and to solicit your Lordship's sanction to the Muttra-Hathras, the Dildarnagar, and the Achnera-Muttra Railways being classed as productive public works.

2. The first of these lines, 29 miles in length, is built on the metre gauge, with 30 lb. rails and deodar sleepers. The rails are laid alongside the public road for the greater part of the distance. The work was opened to public traffic in October 1875, and the receipts on it have augmented from an average of Rs. 55·7 per mile per week in 1876 to Rs. 64·1 in 1878.* The total outlay up to the end of 1878 has been Rs. 10,49,358, and the net earnings in that year amounted to 4·37 per cent. on the capital cost. Additional expenditure has now to be incurred for new rolling stock, &c., and, as the remunerative character of the work is established, there is no reason why the additional outlay should not be met from the productive public works grant. The capital to which sanction is solicited is 12½ lakhs, of which Rs. 3,43,900 were raised on a guarantee of 4 per cent. Rs. 7,05,458 have been advanced out of provincial funds, and the balance, Rs. 2,00,642, it is proposed to charge, when extra stock, &c. is purchased, to the productive public works grant.

3. The Dildarnagar Railway, 12 miles in length, is being built on the broad gauge with 60 lb. rails, between the East Indian Railway and the right bank of the Ganges, opposite the town of Ghazipur, containing 67,000 inhabitants, and the head-quarters

* The present earnings are Rs. 92 per mile per week.

of the opium agency in the North-western Provinces. The line is estimated to cost, without rolling stock, $6\frac{1}{2}$ lakhs, and is intended to be handed over for working to the East Indian Railway Company. The traffic upon it is calculated at 102,000 passengers and 35,000 tons of goods, yielding annually about Rs. 40,000, which would, at the East Indian Railway per-centage of working expenses, give a return of 4 per cent. on the invested capital. Rs. 5,00,800 of this capital have been subscribed locally on the terms stated in the annexed North-western Provinces and Oudh Government resolution, No. 37L.R.C., dated 14th July 1876, and the balance is to be paid out of the productive public works grant. Correspondence has passed regarding this railway between your Lordship and ourselves, ending with our Despatch No. 68R. of 7th June 1877. The work will probably be opened to traffic by the close of the financial year, and we consider it ought to be classed as productive, and transferred on completion to the new East Indian Railway Company on the condition suggested in the synopsis attached to our Financial Department Despatch, No. 226, dated 17th June 1878, paragraphs V. and VI.

4. The Muttra-Achnera Railway, 24 miles in length, will connect the town of Muttra, containing a population of 61,000, to the Rajputana Railway system. It was commenced in 1878 on the metre gauge, as a famine relief work, and the earthworks on it are finished. It is now proposed to complete the railway as soon as funds can be made available. The probable gross earnings are calculated on information collected from the road traffic between Agra and Muttra and Bhartpur and Muttra (all of which cities this line will serve) at about Rs. 85,000 per annum, and the capital expenditure at 9 lakhs, inclusive of nearly 2 lakhs for rolling stock.

5. We are of opinion that rolling stock need not be specially provided for this short section of railway, but that it ought to be worked as part of the Rajputana Railway system, any extra stock that may be required being debited to the main line. This course is only fair to small branch railways. The traffic that will be attracted to the Rajputana Railway, from having the sacred town of Muttra linked on to it by a branch, will far more than pay interest on the cost of any stock that may have to be bought in consequence of the increased mileage. It is in accordance with English practice as well as rules of equity that main lines should give some contribution towards the construction of feeders. The best form any such contribution can take is an agreement to work the branch on the same per-centage of gross earnings as the main line, and to find all the necessary rolling stock.

6. We would like to see contributions on this principle made from guaranteed undertakings to State branch lines, and we think our best chance of inducing the companies to accede to our wishes is by setting an example on State and provincial railways. Independently of the equity of the arrangement, the public are better served when there is no diversity of interest between owners of branches and owners of main lines; greater economy is also secured in the use of stock by unity of management, and by having no complex accounts to regulate interchange.

7. In the instance of the Muttra-Achnera Railway, it would be advantageous in the interests of the Rajputana Railway to extend the offer to provide stock for the line beyond Muttra as far as Hathras, if the North-western Provinces Government undertake in return to connect the two lines by a permanent bridge over the Jumna at Muttra. The present bridge is one of pontoons, kept up, however, all the year. Such a permanent bridge would be of use to the town as well as beneficial for railway purposes, and our offer for working would, without adding to the burden on local resources, enable the North-western Provinces Government to set aside 5 lakhs out of their share of the productive public works grant for the construction of the bridge.

8. We will address your Lordship at a future date about the proposed Bareilly-Pilibhit Railway. The plans and estimates for this line are not as yet settled, but the traffic returns which have been collected leave no doubt that the line ought to be classed as a productive public work, whenever we are in a position to put it in hand.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
JOHN STRACHEY.
E. B. JOHNSON.
W. STOKES.
A. R. THOMPSON.

No. 25.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, July 17, 1879, No. 261
(Financial).

36. In the 5th paragraph of your letter of the 28th of February, No. 70 B (Financial), it is stated that during the year 1877-78 an outlay of 4,791,052*l.* was "due to the construction of productive public works, in pursuance of the policy "deliberately adopted;" and this expression is repeated in the 33rd paragraph of your resolution of the 13th of March, only the amount is there stated to be 4,968,123*l.*, including 177,071*l.* as the loss by exchange on the remittances needed to pay for the purchase of stores in England. I notice these statements mainly to guard against the possibility of misconception. I understand them to be intended only to express the fact that, on productive works which are being carried out in pursuance of the deliberate policy of the Government, an outlay of nearly 5,000,000*l.* was incurred in 1877-78. It is not part of the policy of Her Majesty's Government that, in a year in which it is necessary to incur public debt to the amount of 7,000,000*l.*, so large an expenditure on productive public works should take place; and the special circumstances which led to an outlay exceeding the amount in the budget estimate by upwards of a million sterling must be viewed rather as an exception to, than in accordance with, the general policy. That policy, as your Excellency is aware, has been only to spend from borrowed funds what the local money market can provide from time to time; and, owing to the great strain placed thereon by the recent loan, and to the necessities of the financial condition generally, I found it imperative to direct that the capital outlay on productive works should, as speedily as possible, be reduced to 2½ millions a year. I received accordingly, with much satisfaction, your Excellency's telegram of the 1st of May, and subsequently your letter of the 22nd of May, No. 138, stating that this reduction would be carried out, although it cannot come into full operation during the present year.

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38. In reference to civil expenditure, you have issued to all the local governments and departments stringent orders forbidding the undertaking of any fresh charge, or the commencement of any new work. Such an order may be viewed by the provincial governments as an encroachment on the powers recently assigned to them under the measures adopted to carry into effect the policy of decentralisation. But, knowing how much importance your government attaches to the successful working of that policy, I do not doubt that your Excellency will take care to avoid such a result, and that, in revising the grants assigned by your government to the provincial administrations, with a view to reduction where necessary, you will leave to them full discretion as to the manner in which your orders shall be carried into effect.

39. I notice in your resolution of the 1st of May a statement that during the past 10 years civil expenditure, excluding famine and loss by exchange beyond your control, has been reduced by 1,500,000*l.* A somewhat similar result was claimed in the financial statement made by Sir John Strachey on the 15th of March 1877, with reference to the period from 1862-70 to 1875-76. It is important that the manner in which this reduction has been effected should be explained. In a comparison of net income and expenditure the figures will somewhat differ, according to the mode in which certain headings are placed on the one or the other side of the statement.

Adopting the form in which a Return* was recently given to Parliament, for the years 1877-78 to 1879-80, and arranging the figures so as to bring the provincial expenditure under the various Heads now shown in the accounts, I find the comparison to be as follows :—

* Commons Paper 166 of 1879.

	1869-70.	1875-76	1878-79. Regular Estimate.	1879-80. Budget Estimate.
	£	£	£	£
Net Receipts - - - - -	38,588,429	39,232,618	44,554,375	43,623,100
Net Civil Charges - - - - -	11,889,129	12,242,472	12,776,601	13,018,100
Allotments for Provincial Services (other than Civil Charges) - - - - -	—	1,296,070	—	—
Public Works Ordinary - - - - -	4,391,979	2,241,347	4,731,647	4,962,000
Interest - - - - -	5,248,254	5,002,779	4,357,054 (Excluding that on Productive Works.)	4,470,000 (Excluding that on Productive Works.)
Loss by Exchange - - - - -	21,529,362	20,782,668	21,865,302	22,450,100
Famine Relief - - - - -	142,555	1,084,293	2,977,000	3,521,000
Army - - - - -	—	508,554	555,597	10,000
	15,250,779	14,262,848	16,022,912	17,375,000
Total Net Ordinary Charges - - - - -	36,922,696	36,588,363	41,420,811	43,356,100
Guaranteed Interest, less Net Traffic Receipts - - - - -	1,547,064	975,310	807,059	728,000
Other Productive Works Interest, less Net Receipts - - - - -	—	—	874,876	894,000
	38,469,760	37,563,673	43,102,746	44,978,100
Surplus - - - - -	118,669	1,668,945	1,451,629	—
Deficit - - - - -	—	—	—	1,355,000

40. According to these figures, of which the details are given in the accompanying statement, the civil charges, so far from showing a decrease of a million and a half in the last 10 years, exhibit a considerable increase. It is possible that the changes which have taken place in the form of the accounts, and the introduction of the local expenditure, may account for the discrepancy; but I shall be glad to receive a statement showing upon what figures the reduction referred to in your resolution is based.

* * * *

50. In connexion with the subject of borrowing, I desire to suggest to your Excellency the expediency of announcing in another year your readiness to receive at each treasury in India sums on loan at a specified rate of interest, at any time, till further notice, for the purpose of constructing productive works. This system of an open loan, if applied to the ordinary expenditure of the year, would be not unlikely to lead to extravagance; but, so long as it continues part of the recognised policy of the Government to borrow a sum of not more than $2\frac{1}{2}$ millions annually for public works, if any appreciable portion thereof could be raised in small sums throughout the country, it would diminish the amount for which it was necessary to apply for tenders (even if it did not entirely remove that necessity), and consequently the price to be obtained would in all probability be better when the balance of the loan was announced. To carry out such a plan, it would be necessary that the amount to be raised during the year should be determined as part of your budget arrangements, so as to avoid the risk of borrowing in any one year more than could be usefully expended, or than it was desirable to add to the debt, and to close the treasuries to the receipt of subscriptions for the year as soon as the amount shall have been obtained.

I have, &c.

CRANBROOK.

No. 26.

DESPATCH to the GOVERNMENT OF INDIA, July 31, 1879, No. 292 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 15th of May, No. 135, on the subject of the railway from Patna to Gaya, from which I learn that the sanctioned cost of the line is Rs. 31,75,000, or about Rs. 54,000 per mile, and that eventually about $14\frac{1}{4}$ lacs must be added to the capital outlay for the completion of the works, making an average of Rs. 80,000 per mile. Assuming that three fourths of the existing traffic on the road will pass over the railway, you estimate the gross receipts at Rs. 3,83,000 a year, and if half that sum can be secured as net

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traffic earnings, the interest on the total expenditure of 46 lacs will be nearly $4\frac{1}{2}$, or, more accurately, not quite $4\frac{1}{4}$ per cent. You consider the financial prospects of this line to be remarkably good, and, though the local debenture loan by which it was originally intended to raise a portion, at least, of the funds has not yet been issued, you think it possible that such a loan may yet be raised. Meanwhile, you are advancing funds from the public treasury on the responsibility of the Government of Bengal, which will pay interest thereon at $4\frac{1}{2}$ per cent., the provincial resources being ample to ensure the Imperial Treasury against loss on these advances.

2. Your Excellency having sanctioned the construction of this railway as a provincial productive work, and the line being far advanced, I will not withhold my sanction from its inclusion in that category, though the calculations as to the financial prospects of the work do not appear to me in so favourable a light as that in which you view them.

3. With reference to the statement that you are advancing the funds on the undertaking of the provincial government to pay the interest thereon, I would point out that, unless there is sufficient evidence of the work being in itself of a productive character, it would not be right to supply the money on the guarantee of the provincial government to defray the interest from the resources at its command, for such a course would admit of a most unprofitable work being entered upon as productive, if only the local administration considered the advantages to be gained from its completion so great as to justify the imposition of the necessary charge on the provincial revenues.

4. Finally, I must observe that, however good may have been the prospect of raising a loan from the native landowners and capitalists for the construction of a work likely to benefit the neighbourhood of the places in which their property is situated, it may be apprehended that there will be much less disposition on their part to advance the funds after the line has been constructed without their assistance.

I have, &c.

CRANBROOK.

No. 27.

LETTER from the GOVERNMENT OF INDIA, August 18, 1879, No. 262 (Financial).

MY LORD,

WE have the honour to submit, for your Lordship's consideration, proposals by the Government of Bengal for the construction as productive public works of extensions of the Tihút Railway from Muzaffarpur to Bettia on the north, and from Darbhanga to Piprá Ghât on the east.

2. The line already open is 80 miles long : to which the proposed northern extension would add 78, and the proposed eastern extension 24 miles. Two further extensions are contemplated hereafter, namely, an extension for 30 miles more to the east of Piprá Ghât, and a southern branch, 35 miles long, to Hajipur, opposite the city of Patna. Thus the whole system, as now projected, will eventually consist of about 250 miles of road, traversing a country with a population of about 700 to the square mile.

3. The extensions now proposed are estimated to cost about Rs. 47,00,000 ; but this sum will only suffice for an unfenced and unballasted road, with few permanent stations, and with an outfit of rolling stock which, although liberal for immediate wants, is not likely to suffice for the fully developed traffic of so wealthy and populous a district. We cannot estimate the ultimate cost of these extensions, when completed and stocked, at less than Rs. 60,00,000, or say, Rs. 53,600 a mile.

4. According to estimates based partly on actual returns and partly on the experience of the line already open, the gross yearly earnings of the two extensions now proposed are expected to be—

	Rs.
Coaching : - - - - -	1,83,000
Goods : - - - - -	2,73,000
Total - - - - -	<u>4,56,000</u>

5. The working expenses may reach two-thirds of the gross earnings, but are not expected to exceed three-fifths. A net profit of Rs. 1,50,000 would give three per cent. upon a capital outlay of Rs. 50,00,000, which is likely to suffice at the outset ; as the capital expenditure is completed, we may reasonably hope that the net profits will at least keep pace with it.

6. These estimates take no count of the gains which will accrue from these extensions to the line already open, or to the East Indian Railway.

7. Further, as the Government of Bengal justly remarks, "both extensions would be of the greatest service in case of famine or severe distress in North Darbhanga or Champaran; and this tract of country, which lies along the Nepal frontier, suffered severely from famine both in 1866 and 1874, and is at all times specially liable to be affected by scarcity and irregular rainfall." The Government of Bengal might have added that, in the event of famine occurring in these regions, the saving of expenditure for the carriage of food supplies would go far to recoup the Government for any possible direct loss upon the working of these extensions in ordinary years; and that, owing to the access thus opened to new and abundant food resources, the same result would follow, if famine, not extending to these regions, should occur in other tracts within a moderate distance from them.

8. Although we cannot now take into account the indirect advantages which will certainly follow, in ordinary times, from our furnishing to such fertile and populous tracts efficient means of communication with the outer world in place of their present isolation, we nevertheless cannot leave those advantages unnoticed, for it is difficult to exaggerate their importance, not only to those particular tracts, but to the country as a whole.

9. We have, then, no hesitation in concluding that it would be sound policy to borrow the money required for the construction of these extensions of the existing Tihút Railway; and that the conditions upon which we are entitled to treat a work as productive are, in this case, sufficiently fulfilled. Further, the state of the provincial revenues of Bengal is such that we should have ample security for a loan from the Imperial Treasury for the cost of these lines.

10. With this conviction, we should, some months ago, have asked your Lordship to authorise the construction of these extensions as productive public works, had it not been for your instructions to us to restrict our expenditure on such works to 2½ crores of rupees a year.

11. Having regard to our obligations in respect to works already in course of construction as productive, and to the demands which we anticipate from other parts of the country, we cannot now foresee the time when we shall be able to provide for these lines, greatly as we desire their speedy construction, from the yearly grant to which we are thus limited.

12. But in a letter, No. 275 S.R., dated 24th March 1879, the Government of Bengal has represented that it has reason to believe that a large part of the capital required for the proposed extension from Darbhanga to Piprá Ghát (the cost of which it estimates at Rs. 11,30,000) can be raised by a local debenture loan.

13. We, therefore, ask your Lordship to sanction, for the present, the construction of this Eastern extension only, at a cost of, say in all, Rs. 13,00,000, on the condition that the Government of Bengal provides by means of a local debenture loan for whatever portion of the capital cost of this extension it cannot meet from its ordinary provincial resources.

14. Sir Ashley Eden informs us that the present circumstances are specially favourable for the issue of the local debenture loan thus recommended, and that delay may seriously interfere with its success. We shall accordingly be glad if your Lordship will intimate to us by telegraph your sanction to our proposal.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
J. STRACHEY.
E. B. JOHNSON.
W. STOKES.
A. R. THOMPSON.

No. 28.

DESPATCH to the GOVERNMENT OF INDIA, August 28, 1879, No. 128 (Railway).

MY LORD,

PARAGRAPH 1. I have had before me in Council papers transmitted with your Letter, No. 166, dated 16th June last, informing me that the Chief Commissioner of Assam has been authorised by your Government to guarantee, for five years, interest at the rate of 5 per cent. on the capital, estimated at 16 lacs, required to construct a

metre gauge railway, about 67 miles in length, from Dibrugarh to Sadiya in Assam, the guarantee being limited to a maximum payment in any year of 80,000 rupees.

2. A guarantee thus limited is free from some of the strongest objections generally urged against guarantees. It cannot sensibly affect the ordinary motives to economy of construction, and it closely restricts the maximum charge imposed on the Government, for which there will, in the present instance, be large indirect compensation in the increased value given to the land through which the railway will pass, besides a probable saving in respect to road construction and maintenance, which would otherwise have been almost certainly unavoidable. Neither am I insensible of the great importance of meeting in a liberal spirit the efforts of the local community in Assam, to provide themselves with improved means of communication, and I willingly assent to a scheme which appears to involve no objectionable financial liabilities.

3. It has not been specially explained by your Excellency how the provincial revenues of Assam will be able to bear the demand made upon them by the guarantee, considering that for some years past they have annually shown a deficit in comparison with the provincial expenditure, but this is not a point your Excellency's Government is likely to have overlooked, and it is presumed that the ordinary public works grant will suffice to meet the charge without involving any additional demand on the revenues of India.

I have, &c.

CRANBROOK.

No. 29.

EXTRACTS FROM LETTER from the GOVERNMENT OF INDIA, September 25, 1879,
No. 313 (Financial).

5. In the programme of operations prepared in the Public Works Department in the autumn of 1878, we contemplated an expenditure, in 1879-80, of 4,500,000*l.* on productive public works; and the departmental arrangements were provisionally made upon this scale. Ultimately, however, we were unable to provide more than 3,500,000*l.* for expenditure on these works; and the establishments being much larger than would be necessary for so limited an expenditure, we deemed it right to relieve the grant for productive public works by the transfer of 100,000*l.* to the imperial grant for ordinary works.

6. In the eighth paragraph of your Lordship's Despatch No. 105, dated 27th March 1879, you intimated that you considered a grant of even 3,500,000*l.* for the construction of productive public works "still to be at least a million too high," and repeated instructions, already conveyed to us by telegraph on the 11th of March, that our productive public works expenditure must be reduced, as speedily as possible, to the rate of 2,500,000*l.* annually. These instructions were reiterated in your Lordship's Public Works Despatch No. 20, dated 10th April, and again, in the 36th paragraph of your Despatch upon the estimates, No. 251, dated 19th July.

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8. By Resolution No. 649, dated 19th May, communicated to your Lordship with Despatch No. 138, dated 22nd May, we initiated measures for the reduction of our expenditure upon public works by 1,733,000*l.* a year, of which 1,000,000*l.* is the reduction ordered by Her Majesty's Government in the expenditure on productive public works, and 733,000*l.* the amount by which we hope to reduce our ordinary expenditure on public works of all other kinds. Of this sum of 733,000*l.* we contemplate the retrenchment of 419,000*l.* from our imperial expenditure.

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9. The remaining 314,000*l.* is the curtailment estimated to be practicable in the expenditure of the provincial governments on public works, upon which the temporary retrenchment which we have been compelled to make from the provincial assignments must, doubtless, chiefly fall. At the same time we take the opportunity of explaining, in reply to the 38th paragraph of your Lordship's Despatch No. 261, dated 17th July, that we have not exercised, and do not anticipate any necessity for exercising, any interference with the proceedings of the local governments upon this retrenchment; and that, their present share in the general reduction of expenditure having been now arranged, we have already withdrawn all the abnormal restrictions temporarily imposed upon them by our Resolution No. 410, dated 1st May 1879.

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10. In the Resolution No. 649, dated 19th May, from which we are quoting, we estimated at 1,300,000*l.* the share of our reduced expenditure on public works to be spent on establishments. Our reasons for this estimate are, as explained in the 8th paragraph of the resolution, necessarily inconclusive; and it will be remembered that

we consider that even 1,300,000*l.* may, possibly, be found too large a sum to be spent on establishments.

11. To reduce our expenditure of this kind to 1,300,000*l.*, we must dispense with establishments costing at least 500,000*l.* a year.

* * * * *

14. We have made no remonstrance against your Lordship's instructions for the reduction to 2,500,000*l.* of our yearly expenditure on the construction of productive public works. Notwithstanding the peremptory terms of those instructions, we do not understand your Lordship to intend that we must, under all circumstances, limit such expenditure to 2,500,000*l.* a year. We presume that it would still be open to us to represent, in case of need, that we might properly borrow in India more than 2,500,000*l.* in a single year; our estimate of this amount quoted in the 7th paragraph of your Lordship's Despatch No. 105, dated 27th March 1879, was, avowedly, tentative and inconclusive; this year we have borrowed about (net) 3,750,000*l.* Page 33.

15. In the 48th paragraph of your Despatch No. 261, dated 17th July, your Lordship expresses the opinion that the reduction of the price of our securities to 95 per cent. for securities bearing interest at $4\frac{1}{2}$ per cent. for 14 years, shows that the market has this year been pressed beyond what it can at present bear. The price of these securities has since risen to about 101. We attribute the fall in the value of our rupee securities of late years solely to the uncertainty of the future relations between gold and silver. Considering this uncertainty, we do not think that we have any reason to be dissatisfied with the prices at which our recent loans have been taken up, still less with the present market prices of our rupee securities. We have little doubt that, if we were to undertake to pay interest and repay principal in gold; if, in other words, we were to borrow upon the same conditions upon which your Lordship borrows in London; we could raise large amounts in India, upon terms little worse than those upon which our sterling bonds are issued in London.

16. The truth is, that whether we borrow in London or in India, in sterling or in rupees, our wants are, for the most part, ultimately supplied by British capitalists. Our powers of borrowing in India are really limited, not by reason of the amount of our loans or the source from which our wants are supplied, but only in consequence of the condition that the interest is payable and the principal repayable in silver, and not in gold. Even with this condition we could doubtless borrow large sums in India, if we were to consent to lower prices.

17. Apart from this, your Lordship did not, we understand, mean to forbid us to spend on productive public works, in addition to the sum which we borrow in India, any surplus revenue not hypothecated to other purposes. Under your Lordship's instructions, such surplus is, whenever the operation is practicable, to be appropriated first of all to the reduction of our sterling debt at the rate of 75 lakhs of rupees a year. But we understand that the expenditure on productive public works of the residue of any surplus revenue, or of the whole, if the condition of the exchanges makes the reduction of our sterling debt impossible, is authorised in the 18th paragraph of your Lordship's Despatch No. 62, dated 20th February; because, as you approve our spending such surplus on "protective works not, necessarily, directly remunerative," it seems certain that you must still more approve our spending it on works directly remunerative or productive. Page 159.

18. Moreover, we do not understand that the limit of 2,500,000*l.* applies to works, the capital cost of which is provided by native states, such, for example, as the railway between Itarsi and Sehore proposed in our Railway Despatch No. 202, dated 7th August, or to works the capital cost of which is raised by local debenture loans.

19. Our present difficulties have not disturbed our belief in the great importance of the most rapid possible development of the means of communication and other material improvements in India. We believe that the best, perhaps the only, hope of our early emergence from these difficulties lies in an intelligent cultivation of the natural resources of the country.

20. With these convictions, we should not have acquiesced, without remonstrance, in the absolute permanent restriction to 2,500,000*l.* a year, of our expenditure on the construction of productive public works, if we had understood this to be your Lordship's intention; if, however, our interpretation of your orders is correct, they are in accordance with our own opinions. Accordingly, we have been careful so to frame our proposals for the re-organisation of our establishments that we shall have no difficulty in hereafter increasing our expenditure on productive public works to any extent which is likely to be considered expedient. We could not have undertaken any reductions not compatible with this condition.

21. The ordinary difficulty of organising an efficient and economical service has been aggravated, in the case of the Public Works Department, by the fluctuations of public policy which have manifested themselves in large variations of the grants made for expenditure in this department. We need not now inquire into the causes of these fluctuations, and we do not wish to criticise the policy either of the school which advocates a lavish public expenditure on such works, or of that which regards with distrust any such expenditure which can be avoided. It only concerns us now to recognise the fact that we have no reason for expecting hereafter more immunity from such alternations of conflicting influences than we have enjoyed heretofore. Our duty therefore is to anticipate their recurrence, and frame our measures accordingly.

No. 30.

LETTER from the GOVERNMENT OF INDIA, October 2, 1879, No. 319 (Financial).

MY LORD,

MUCH inconvenience is experienced by our public works executive agency from the application to our capital expenditure on productive public works of the system of annual grants, the unspent balance of which lapses at the end of each financial year.

2. This particular provision is probably an unavoidable element in the system of annual estimates, but there can be no doubt that apprehensions of the lapse of the year's grant sometimes lead to the expenditure on ordinary public works towards the end of the year being hurried, insufficiently considered, and wasteful.

3. The evil is felt more seriously in the case of capital expenditure on productive public works. In particular, the uncertainty whether the large payments from the Home Treasury for railway dead-stock and stores will fall into the accounts of one year or another, perplexes the executive in India, and makes it difficult to secure any close correspondence between the estimates and the accounts of each year.

4. The financial advantages of the system of annual grants may, perhaps, be sufficient to compensate for the inconvenient consequences which it thus entails in our expenditure on ordinary public works; although it would be well if we could obviate in it also the waste of public money.

5. Whether that be possible or not, there seems no sufficient reason why we should submit to the inconvenience in respect to the capital expenditure on productive public works, since this does not enter into the annual comparison made between the public revenue and expenditure in order to ascertain the general financial condition of the State.

6. We desire therefore, with your Lordship's concurrence, to constitute a fund for the construction of productive public works, which will be supplied by annual grants from the Imperial, and sometimes from a provincial, treasury, and from which all capital expenditure on productive public works will be directly defrayed. If this be permitted, such expenditure would henceforth be subject only to one condition, namely, that the balance at credit of the "Productive Public Works Fund" must never be absolutely exhausted.

7. Under this system the capital expenditure of our public works executive agency on productive public works would be regulated financially in exactly the same way as the provincial expenditure of the local governments is regulated, as explained in paragraph 14 of the financial statement for 1879-80.

8. In order to prevent any inconvenience ensuing in respect to ways and means, we should nevertheless require estimates, as now, of the expenditure from the fund contemplated during the year, and forbid any excess outlay without our consent in the department of finance. This condition applies already, for the same reason, to the expenditure of provincial funds.

9. If your Lordship authorise us thus to constitute a "Productive Public Works Fund," we might record, in the finance and revenue accounts as our capital expenditure on productive public works, either (1) the amount added to the fund, that is, the amount of the grant itself, or (2) the amount expended from the fund.

10. In the parallel case of the expenditure from provincial and local funds, we adopt the latter alternative, maintaining those funds by the device of the adjusting heads "Provincial and Local Deficits and Surpluses." The provincial expenditure is divided into so many important branches that there are obvious reasons for the choice, in that case, of this alternative, and the addition of the two necessary adjusting heads does not cause much inconvenience.

11. But the case of productive public works is different. The capital expenditure upon these works is recorded in the finance and revenue accounts under a single head only; and not only would it be objectionable to add to that head two fresh adjusting heads below the line "Surplus or Deficit," but we should anticipate difficulty in explaining the meaning of these heads, or the causes of the difference between grant and expenditure, which, by this method, would appear upon the face of the accounts.

12. We, therefore, propose to adopt the simpler alternative, and to record, in the finance and revenue accounts as our productive public works expenditure, the actual amount of each year's grant.

13. At the same time we should open a separate account of the "Productive Public Works Fund," showing on the one side (1) opening balance, (2) grant (being the expenditure of the year as shown in the finance and revenue accounts), and, on the other, (3) the amount actually expended from the fund in all desired detail, and (4) the closing balance.

14. If your Lordship approves this plan, we trust that you will treat the capital expenditure on productive public works from the Home Treasury as a remittance to India, and also (although we do not desire to insist upon this against your Lordship's better judgment) allow us to convert the amount so remitted into rupees in our Indian accounts at the average rate of exchange at which our remittances to the Home Treasury are effected during the year.

15. If your Lordship should be unwilling to treat the home expenditure as a remittance, we might record as the Indian expenditure the difference between the home expenditure and the whole grant to the fund; but this would involve great differences between the home and Indian subdivisions of the grant and the actual expenditure, and would be otherwise difficult of explanation.

16. The method which we thus propose would not involve our pledging ourselves to grant any particular sum for expenditure on the construction of productive public works, or cause any relaxation of our financial control. We should always take into account the condition of the fund when fixing the grant to be made for its supply.

17. If your Lordship pleases, we should be glad to introduce the new system with effect from the current year 1879-80; in that case the forthcoming home estimates should be prepared upon this basis.

We have, &c.

LYTTON.

F. P. HAINES.

A. J. ARBUTHNOT.

A. CLARKE.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

A. R. THOMPSON.

No. 31.

LETTER from the GOVERNMENT OF INDIA, October 18, 1879, No. 266 (Railway).

MY LORD,

In your Financial Despatch No. 105 of the 27th March 1879, your Lordship Page 34. called on us to furnish, from year to year, a forecast of the expenditure we proposed to incur on our State railways that had been opened for traffic.

2. Experience has demonstrated that expenditure on railways in all parts of the world is progressive. Engineers, however able, cannot foresee all the wants of a railway, after its opening to traffic. It is better and more economical to limit, in the first instance, the provision for equipment and works to the minimum amount necessary for the safe passage of trains, and for the conveyance of the number of passengers and quantities of goods known to traverse the roads parallel to the railway. The estimates of our engineers were all framed on this principle. In our endeavours to enforce economy, the principle has, on one or two of our railways, been pushed further than was consistent with accuracy of calculation. But it is nevertheless intrinsically correct. We build our anticipations of future profits on returns of traffic along existing communications, and we ought, on similar grounds, to confine our initial expenditure to furnishing requirements essential only for the conduct of that extent of traffic.

3. Railways, however, even while under construction, gather around them interests which, on the lines being thrown open to traffic, bring business in excess of the com-

merce on the old roads. It has been found on nearly all our railways that our engineers have not, in making provision for works and equipment, given sufficient credit for the stimulus that is imparted to trade on the establishment of railway communication. The stimulus is not regular in its action from year to year. Occasionally trade advances *per saltum*; at other periods it is apparently stagnant; but there is nevertheless, as a general rule, a steady accretion of business on railways after they are opened for the use of the public.

4. On the Rajputana State Railway, the estimate for traffic wants was taken at two trains each way daily; on the Punjab Northern, a weekly receipt of about Rs. 80 per mile was assumed as the probable yield; on the Indus Valley the waggons indented for did not exceed one eighth of the number per mile in daily use on the Sind section of the Sind, Punjab, and Delhi Railway; and on the Rangoon and Irawadi Valley Railway it was doubted whether the gross passenger receipts would ever amount to more than Rs. 4,20,000 in the year.

5. For some time after these lines were opened to the public the anticipations of our engineers in respect to the wants of the countries in which they were made were not very wide of, though under, the truth. But one of the seasons when traffic is brisk has just passed away. In this season we have had on the Rajputana Railway eight trains running each way daily instead of a maximum of two, and more could have been put on with pecuniary benefit had there been a larger supply of rolling stock. On the Punjab Northern our weekly receipts were as high as Rs. 490 per mile, in place of the Rs. 80 that was the limit of our forecast. On the Indus Valley Railway we have had to increase twofold the number of our waggons, and on the Rangoon and Irawadi Valley Railway our annual gross passenger earnings are more than double the amount of the original estimate.

6. We have given instances to show that the conditions of traffic on some of our State railways are very different to those for which we had made provision in the estimates, which received the sanction of your Lordship. We might quote other cases, where either our hopes of traffic have met with disappointment, or the traffic has hitherto exhibited no signs of expansion. The object of our Despatch is, however, not to detail in full the revenue capabilities of our several railways, but to endeavour to prove that it is a wise policy to keep down first cost on State railways by constructing nothing that is not essential for a minimum of traffic.

7. This policy is, however, incompatible with finality in capital outlay. The incompatibility has long been recognised, but it has been regarded as a defect from a public works point of view, and attempts have repeatedly been made to show by completion schedules the cost to which we may be committed on our different railways. Experience has proved to us that this end is unattainable. But failure is unimportant in comparison with the mischief produced in other ways by completion schedules. As long as there is money to the credit of a line on a sanctioned estimate, the tendency is to regard the balance as a sum that is to be spent at the earliest possible date.

8. We are of opinion that, instead of setting up an ideal standard of a perfect railway to be constructed for a specified amount, it is better, in the interests of the State, after all the *line* works are complete, and after a railway has been open to public traffic for one year, that the sanctioned estimate should be looked upon as finally closed, and that all further expenditure should only be incurred after a review of the duties that we are called upon to perform for the public and of the revenue we earn on the railway.

9. We now proceed to state the position in which we expect each of our State railways, open more than twelve months to public traffic, to be at the close of the financial year, and we shall also indicate the sum which in our opinion ought to be set aside for its improvement out of the productive public works grant for 1880-81.

10. *Punjab Northern, Lahore to Jhelum, length 103 miles; opened to public traffic as a broad gauge road on the 6th October 1878.*

In our Despatch No. 161 (Railway) of the 21st June 1879, we reported to your Lordship that the last estimate for this railway was 270 lakhs of rupees. The expenditure to the close of the current financial year will not, it is believed, amount to more than 257 lakhs of rupees. The difference between these two sums we propose to have written off as a final saving on the sanctioned estimate. But we shall not be able to show this difference as a cash reduction, in consequence of there being a large balance in hand of stores which will be expended hereafter, either on revenue account, or on the extension of the railway towards Peshawar and Kohat. The gross revenue earn-

ings during 1879-80 are expected to be about $11\frac{1}{4}$ lakhs of rupees, of which more than two-fifths is derived from passenger traffic. The line is in good order. The main wants are engine sheds at Lahore, as well as staff quarters. At present, from the locomotives being stationed north of the Ravi River, considerable needless expense is incurred in running to and from the station. Several miles of the railway are still unfenced, and we require additional accommodation for goods and passengers at some stations. The sum that we intend to devote to the railway next financial year is about 2 lakhs of rupees, but this is not enough to enable us to do anything towards the completion of the fencing.

11. *Indus Valley Railway, Multan to Kotri, length 500 miles, opened as a broad gauge road to public traffic between July and November 1878.*

In our Despatch No. 45 (Railway) of 19th February 1879, we reported that the cost of the railway, inclusive of the bridge over the Indus at Sukkur, would be about 718 lakhs of rupees. We have since received fresh detailed estimates from which it would appear that the cost was a little (about 12 lakhs) over-estimated by us. The expenditure to the end of the current year will be about 613 lakhs of rupees, and the difference between this sum and the amount to which we have solicited the sanction of your Lordship we shall, with the exception of about 30 lakhs of rupees, the assumed cost of the Indus Bridge, have written off as a final saving in the sanctioned estimate. The line is without ballast over the greater portion of its length; it wants nearly five lineal miles of additional waterway; it will have to be fenced to avoid danger from camels which are numerous in this part of the country; we shall have to put up workshops at Sukkur with staff quarters; and we shall have largely to increase the accommodation at stations as well as the number of quarters provided for drivers, guards, and other running staff. We have no hope of being able to commence the construction of the Indus Bridge in the next financial year, but we propose to allot 20 lakhs of rupees to be laid out in ballast, in additional bridges, in commencing the construction of workshops at Sukkur, and in erecting a few more quarters for running staff, without which in the climate of Sind it is impossible to maintain men in health.

The gross earnings on the line in 1879 are estimated at 20 lakhs of rupees, of which seven lakhs will probably be derived from passenger traffic.

The Sind, Punjab, and Delhi Railway Company are to take over the traffic management and to find rolling stock, but the maintenance of the railway and its completion are to be entrusted to State officers, and are to be carried out with State funds.

12. *Rajputana Railway, metre gauge: length, including branches, 451 miles: opened in sections from Agra and Delhi to Beawar between July 1873 and May 1878.*

We reported on the 10th February last to your Lordship that, after taking over a part of the sum allowed for the Western Rajputana Railway, the probable cost of the

	Rs.
Estimate for Rajputana State Railway.	2,94,36,926
Estimate for rolling stock transferred from Western Rajputana State Railway.	11,00,000
Estimate for Ajmere-Beawar section.	12,66,808
	3,18,03,734

line as far as Beawar would be Rs. 3,18,03,734, as per margin. The expenditure by the close of the year will be in excess of this sum by about a lakh of rupees, due to the large sums we have had to lay out on rolling stock. The number of engines and waggons on the line will have been increased from 86 and 1,207 respectively in January last, to about 139 and 1,903 before the close of the year. The additions we have made to the quantity of stock by transfers from other lines are perhaps in excess of the requirements of the railway as it is at present constituted, but we are opening out the Western

Rajputana Railway to public traffic rapidly; 18 miles, from Beawar to Raipur, forming the descent through the Aravalli range into the sandy plains bordering the Bikaner desert, were reported ready for use last month; 80 miles, stretching northwards from Ahmedabad, will, it is expected, be in a condition to be used by the public next January; and we hope in November 1880 to be able to complete the link between Pahlampur and Raipur.

Our workshops at Ajmere are the only places on which we can depend for the erection of stock to meet the requirements of the rapidly developing system of metre gauge railways in Rajputana. It is our intention to lay out during the next financial year about 12 lakhs on the railway. This money will be spent in improving the character and increasing the supply of water for locomotive purposes; in completing the Ajmere shops; in laying in sidings at stations to meet traffic wants; in building

staff quarters for our extra drivers, mechanics, and guards; in putting in some drains that have been proved by late disasters to be necessary on the Delhi branch; and in Indian charges for the erection of rolling stock. We calculate, from the earnings up to present date, that the gross revenue receipts on the Rajputana Railway during 1879-80 will not fall far short of 34 lakhs of rupees, and that the net income will be equal to over 4 per cent. on the capital outlay. These returns are, in our opinion, eminently satisfactory, and fully justify us in incurring with confidence further expenditure to meet acknowledged wants, and to provide against a recurrence of the difficulties that crippled the movement of traffic on the railway during the greater part of the last business season.

13. *Holkar and Sindhia Nimach Railway, metre gauge: length from Khandwa to Ratlam, including branch to Ujjain, 172 miles: opened to public traffic in sections between February 1874 and July 1878.*

The traffic on this railway has not hitherto been considerable. The line, as reported in our Despatch No. 205 (Railway), dated 14th August 1879, will have cost by the end of the financial year Rs. 2,03,83,944, but the gross traffic in 1879-80 will not yield more than 11½ lakhs of rupees, and of this by far the greater part (8 lakhs) of rupees will be absorbed in working expenses. Under these circumstances it does not seem desirable to continue expending extra capital not needed for the safe conduct of traffic. We shall therefore confine our expenditure next year to two lakhs of rupees, a large part of which must be laid out on the Mhow Ghât in additional sidings, while the balance will have to be spent on the new junction arrangements with the Great Indian Peninsula Railway at Khandwa, and in putting up a few more houses for the working-staff.

14. *Nizam's Railway, broad gauge: length 121 miles: opened in October 1874. Total probable cost to end of 1879-80, Rs. 121,77,525.*

His Highness the Nizam has gone to considerable expense in buying stock for this railway since its working has been given up by the Great Indian Peninsula Railway Company, and he has also added numerous sidings to those that were previously in use. His Highness will probably have to spend a little more money in thoroughly equipping his railway, but it is his desire to keep it in future altogether in the hands of the resident, and there is no reason why we should interfere with his wishes. The line is not remunerative, the gross receipts in 1879 not being expected to exceed eight lakhs of rupees, or the net earnings to give more than .82 per cent. on the capital outlay.

15. *Berar Railways: length 14 miles, broad gauge: cost 11½ lakhs of rupees to end of 1879-80: opened in March 1870 and February 1871.*

These lines yielded a return of from 6 to 12 per cent. on their cost while in the hands of the Great Indian Peninsula Railway Company, and it would be well to get the company to resume the management. We have bought some stock for the branches, and if further expense has to be incurred it will be with the same object. The money spent on these lines, as well as on the Nizam's Railway, does not form a charge on the productive public works grant.

16. *Wardha Coal State Railway: broad gauge: length 46 miles: opened between 1874 and 1877: cost, inclusive of Colliery, on 31st December 1878, Rs. 54,92,235.*

A proposal has been made to lease the lines, as well as the pits, to the Great Indian Peninsula Railway Company. There is no intention to lay out more State capital on the undertaking. Enough stock has been purchased to keep it at work, and we have ordered coal waggons out in sufficient numbers to furnish coal to all consumers except the railway company. The gross receipts for the railway and pits are in 1879-80 expected to amount to Rs. 5,30,000, and the expenditure to Rs. 3,30,000, leaving a net income of Rs. 2,00,000.

17. There are several local lines in the North-western Provinces, but none of them, with the exception of the Hathras-Muttra Railway, will, we know, be open to traffic at the close of the current official year. This short railway pays well, and ought to be supplied with a larger equipment of stock. But it is unnecessary at present to make an allotment for it distinct from the grant that is to be assigned for the construction of provincial railways under the North-western Provinces administration.

		Length.	Cost.	
		Miles.	Rs.	
Bengal Provincial Railways.	Calcutta and South-eastern State Railway.	28	67,58,500	Railway has suffered such severe damage during late floods as to show that it stands in great need of additional water-way. We feel some reluctance to make extra grants to the Bengal Government for the improvement of railways in that province. The expected gross receipts are poor (20½ lakhs in 1879-80), and the net income is not likely to exceed five lakhs. But the probable capital expenditure
	Nalhati -	27½	3,41,000	
	Northern Bengal -	242	205,41,000	
	Patna and Gaya -	57	30,75,000	
	Tirhut -	82	55,17,000	
Total		436	362,32,500	

will, by the end of 1879-80, amount to nearly three crores of rupees, exclusive of the sum laid out on the Calcutta and South-eastern Railway when under a guarantee. Some of the lines are, however, incomplete, and it is absolutely necessary for public safety that they should be put into good order. On the Patna-Gaya, broad gauge, there is no ballast, no permanent station, and no rolling stock. The sanctioned estimate for the line was Rs. 30,74,675, and the expenditure to end of 1879-80 will be about the same. The work estimated for will be completed within the sum allotted for the railway, and within the current year. We therefore propose to close further expenditure against that sanction after March 1880, and to allow the Bengal Government to reappropriate out of our grant for productive public works in the province such sums as they may deem necessary for the safe working of the railway.

proving such same as they may deem necessary for the maintenance of the line.

19. The Northern Bengal metre gauge is comparatively more complete, but the outlay on it by the end of 1879-80 will be (*vide margin*) Rs. 10,88,694 in excess of the sanction given by your Lordship, after deducting the cost of the abandoned section of the line between Silligori and Adilpur. This excess we must ask your Lordship to allow us to write off as a charge against productive public works. Although the cost of this line has surpassed, the anticipated net receipts have fallen below, our expectations. They amount for 1879 to Rs. 2,80,000, or to under 23 per cent. of the gross earnings, which have been put down at Rs. 12,30,000.

	Rs.	
Expenditure to 31st March 1880.	1,94,81,190	
Stores suspense	10,59,843	
	2,05,41,033	
Sanction	1,94,52,339	
Excess	10,88,694	

20. The net receipts on the Tirhut Railway* are better. This line is, however, as yet only a small fragment of a larger work. Until the extensions to Bettia and Pipra Ghât, referred to in our Financial Despatch No. 262, dated the 18th August 1879, are constructed, and a connexion also made with Hajipur, opposite Patna, we cannot fairly expect to obtain results that ought otherwise to be certain on a railway running through a tract with the dense population of 600 to 700 to the square mile. The sanctioned estimate for the portion of the line that has been built amounts to 60 lakhs, but the expenditure at the close of the financial year will be short of 56 lakhs. The difference under the arrangements now proposed for the sanction of your Lordship will appear as a saving in the estimate, but the saving is nominal; as much money is still wanted on this as on other lines to put it into good order.

21. It is our intention to give, for expenditure next year on open lines in Bengal, 10 lakhs of rupees. Interest on this sum, as well as on the expenditure to the end of the current financial year, is guaranteed to us out of provincial revenues; and we hope the improvements this sum will enable his Honour the Lieutenant-Governor to make will render that guarantee less burdensome in the future than it has been up to the present period.

22. *Rangoon and Irawadi Valley Railway, metre gauge: length 169 miles, including suburban lines: opened in May 1877. Expenditure to end of 1879-80 Rs. 125,71,844.*

The Chief Commissioner, British Burma, has lately accepted this railway as a provincial undertaking, and interest on its cost will be paid from the provincial treasury into the Imperial Exchequer. That interest is met only partially by the net revenues.

		Rs.
* Receipts	-	4,55,000
Expenses	-	2,65,000
Net	-	1,90,000.
41.76 per cent. to gross receipts.		

of the railway. The gross receipts on the line are expected in 1879-80 to amount to Rs. 13,50,000, but the clear revenue will not exceed Rs. 4,50,000, while the charges for interest amount to Rs. 5,65,733. We are of opinion that it is, at present, inexpedient to incur much further capital outlay on the railway, and we have therefore made a provision for a grant of only one lakh for next year.

23. In conclusion, we append a summary of our recommendations for your Lordship's sanction. We ought, however, to explain that our estimate of income is entered as shown in the budget of the year, but, so far as we are able at present to form an opinion, it appears probable that the revenues of some of the State railways will be far in excess of our budget forecast.

Name of Railway.	Gauge.	Length.	Probable Capital Cost to end of March 1880.	Estimated Gross Revenue 1879-80 : <i>vide</i> Budget.	Estimated Net Revenue 1879-80 : <i>vide</i> Budget.	Per-centage on Capital Cost.	Proposed Capital Grant for 1880-81.
		Miles.	Lakhs.	Rs.	Rs.		Lakhs.
Punjab Northern - -	Broad - -	103	257	11,10,000	2,10,000	0·81	2
Indus Valley - -	" - -	500	613	20,60,000	3,30,000	0·54	20
Rajputana - -	Metre - -	451	319	33,85,000	12,00,000	3·76	12
Holkar and Sindhia Nimach - -	" - -	172	203½	11,25,000	3,25,000	1·60	2
Nizam and Berars - -	Broad - -	135	133	9,50,000	1,42,000	1·07	—
Wardha Coal - -	" - -	46	55	5,30,000	2,00,000	3·64	—
North-western Provincial - -	Metre - -	29	10½	1,03,000	48,000	4·57	—
Bengal Provincial - -	Both - -	436	294½	20,11,000	5,04,000	1·34	10
Rangoon and Irawadi Valley - -	Metre - -	169	125½	13,50,000	4,50,000	3·58	1
Grand total - -	- -	2,042	2,011½	126,24,000	34,09,000	1·63	47

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
JOHN STRACHEY.
E. B. JOHNSON.
W. STOKES.
A. R. THOMPSON.

No. 32.

DESPATCH to the GOVERNMENT OF INDIA, October 23, 1879, No. 420 (Financial).

MY LORD,

PARAGRAPH 1. In forwarding to your Excellency a copy of the Report from the Select Committee of the House of Commons on East India Public Works, together with the minutes of evidence, I desire to take the opportunity of drawing the attention of your Government especially to the financial aspects of the question with which the Committee have dealt.

2. It is a source of satisfaction to me to find that, in the main, the recommendations of the Committee are in entire harmony with the policy inculcated by Her Majesty's Government in recent years; and this is the more gratifying when it is remembered that all political parties and various shades of opinion on Indian affairs were represented on the Committee.

3. They express their opinion that, on the whole, the past expenditure on railways and irrigation has been beneficial to India, and that the policy of continuing to borrow for the construction of productive public works should be continued within certain limits.

4. These limits are, that, in estimating the probability of a work being productive, it shall be considered whether the annual income will be equal to the interest on the capital outlay, including interest during construction, and that the construction of new works from borrowed money shall for the future be limited to works likely to be productive in this view; that the amount to be annually expended shall for the present be limited to 2,500,000L., and that no larger sum shall be raised in any one year for the purpose; and that, if in any year surplus revenue can be devoted to productive works, the permanent establishment shall not be so increased as to prove burdensome in future years which may be less prosperous.

5. In my Despatch of the 27th of March last, No. 105, I expressed the opinion of Her Majesty's Government that for the present the expenditure must be reduced to

2,500,000*l.* annually, and your Excellency has engaged to make such reductions of the establishment as will admit of this amount being laid out in an economical and advantageous manner next year. It would obviously be impossible to carry this into effect if the amount of the annual expenditure was likely to be soon enhanced; and, bearing in mind the extent to which the balances have in recent years been increased by borrowing, and the consequent importance of some reduction of the debt at the earliest opportunity, I desire that the annual expenditure on productive public works from all sources be for the present restricted to the fixed sum of 2,500,000*l.*

6. You will observe that, in order to facilitate the control of the capital outlay, the Committee recommend that the debt incurred for productive public works be kept separate from the general debt; that all expenditure on such works, whether from surplus revenue or from loan funds, be treated as borrowed money; that the accounts of the Public Works and Financial Departments be reconciled, so that there may be only one accepted official account relating to productive works; and that a full statement of the income derived from, and the expenditure (both capital and current) upon, these works form an integral part of your annual financial statement.

7. Your Excellency had already, in your Minute of the 12th of March 1878, referred Page 8. to the great importance of having an accurate and comprehensive view of the financial results of these works; and I request that, if further instructions are needed, you will, without delay, give orders for the complete fulfilment of the Committee's recommendations. Much has been done in recent years to represent in a clear manner, in the accounts laid before Parliament, the financial result of the policy of constructing productive works; but it is requisite that the several statements should be rendered complete and uniform, so as to obviate the necessity of explanations now often required, with a view of explaining discrepancies in statements of figures intended to represent the general result of the productive works in India. On page xx. of their Report the Committee make especial reference to the difficulty found by so experienced an officer as Major-General Dickens in setting before them an accurate account, and they point out the necessity for distinguishing the works wholly or partly constructed by the old native governments from those entirely constructed under the British Government.

8. In regard to the advantage of raising in India, as a general rule, the whole of the money to be borrowed for public works, the Committee are in accord with the instructions of Her Majesty's Government, and with the undertakings at various times given by the Government to Parliament; and I desire that this may continue to be looked upon as part of the accepted policy in relation to such works. It is all the more necessary owing to the importance, of which the Committee express their sense, of remitting to this country a portion of the special receipts for famine insurance, whenever it may be possible, for the reduction of the debt in England. The suggestion that greater opportunities should be afforded to natives in the interior of the country to subscribe in small sums to the loans of your Government has been anticipated in the 50th paragraph of my Despatch of the 17th of July last, No. 261. Page 49.

9. On the last page of their Report, the Committee allude to the improvements effected in harbours and ports. I shall be glad to receive a statement showing the outlay of this nature since 1858, distinguishing the amounts spent from the Imperial revenues, those expended from borrowed money, and those obtained from local funds or in other ways.

10. As regards loans to local authorities, the Committee consider it essential that none should be made, except on the security of revenues derived from local sources fully adequate for the interest and repayment of the loans. I request to be informed whether advances of this nature are ever permitted except on such security, and, if so, what precautions are taken for the due recovery of the money advanced, with interest.

11. Such an inquiry as has been conducted by this Select Committee is of the utmost importance, and the general concurrence of their recommendations with the policy pursued is very satisfactory. If the various suggestions made by the Committee are carefully acted on, there will be no difficulty in satisfying Parliament as to the real effect produced on the condition of India by the development of her resources owing to the construction of railways, canals, and tanks; and there will, I trust, be no cause to fear that a steady but moderate annual outlay on such works will lead the country into financial difficulties outweighing the very great advantages with which it is unquestionably attended.

I have, &c.

CRANBROOK.

No. 33.

TELEGRAM from the VICEROY, November 12, 1879.

OUR Despatch 262, Tirhut Railway; Darbhanga offers 8 lacs loan. Benga provides rest, and urgently presses sanction.

No. 34.

DESPATCH to the GOVERNMENT OF INDIA, November 13, 1879, No. 444 (Financial).

MY LORD,

Page 52.

PARAGRAPH 1. I have had under my consideration in Council your Excellency's Letter dated the 25th of September No. 313, on the questions of expenditure on public works, and of the establishments to be maintained in future. Such observations as I may have to make on the latter branch of the subject will be communicated to you in the Public Works or Military Department; but it is necessary that I should at once reply to some of the questions raised in paragraphs 14 to 20, of your letter, in respect of which my former instructions appear on some essential points to have been misunderstood.

Page 33.

2. You observe that, "notwithstanding the peremptory terms" of the instructions to reduce the yearly expenditure on the construction of productive public works to 2,500,000L., you "presume that it would still be open to" you "to represent, in case of need, that" you "might properly borrow in India more than 2,500,000L. in a single year;" that your "estimate of this amount quoted in" my Despatch of the 27th of March last, No. 105, "was, avowedly, tentative and inconclusive;" and that this year you have borrowed a net amount of 3,750,000L.

3. On this point I must remind your Excellency that, although the estimate formed by your Government in October 1876 was stated as being liable to reconsideration after experience should have decided what amount could be borrowed in India on advantageous terms, you specified the sum of two or two and a half crores of rupees as the maximum at which it would be prudent to put it, "even at the outset," and that the hesitation on your part was whether, "for a permanency," it might not "prove to be even less than this sum."

4. In accordance with this opinion, the evidence which the Earl of Northbrook gave before the Select Committee of the House of Commons on Public Works on the 4th of April 1878 was to the effect "that the rate of expenditure of four millions a year" "would be too high, if we have to borrow four millions every year for public works;" and he added, "my own feeling was that we ought not to borrow more than two and a half millions a year for public works."

Page 60.

5. In the debate in the House of Commons on the 22nd of May last, Mr. Stanhope, the Under Secretary of State for India, announced, on the part of Her Majesty's Government, that "the limit for public works, they thought, should be fixed according to the amount which the Government of India could fairly be expected to "borrow in India in an ordinary year, without undue disturbance of the money "market. That amount had been ascertained to average 2,500,000L.; and, therefore, "they had decided that the limit of expenditure on public works ought to be "2,500,000L.;" and again, he spoke of "a reduction of the expenditure on productive "public works to the extent of 2,000,000L."

6. In my Despatch of the 23rd of October 1879, No. 420, I referred to the recommendations of the Select Committee that the amount to be annually expended should for the present be limited to 2,500,000L., and that no larger sum should be raised in any one year for the purpose; while, with reference to the impossibility of effecting economical reductions, if the amount of the annual expenditure were likely to be soon enhanced, as well as to the importance of reducing debt at the earliest opportunity, I desired that the annual expenditure on productive public works from all sources might be restricted to that fixed sum.

7. In giving these instructions, it was, of course, no part of my object to prescribe an "absolute permanent restriction" of public works expenditure in India to that amount, or to lay down an invariable rule as to the rate at which such expenditure might be incurred at some future time under altered circumstances; but, for the reasons stated in the foregoing paragraph, I consider that at all events for some considerable time to come it will not be prudent to increase the amount to be expended on productive public works beyond the limit which I have indicated. I am unable

to perceive that the fact stated by you that, since the issue of the $4\frac{1}{2}$ per cent. loan, the price thereof has risen from 95 to 101, affects in any way the ground on which I formed my opinion that the amount of the loan was larger than it was desirable to place on the market in one year.

8. Apart from this question, you observe that my instructions were not, as you understand them, intended "to forbid" you "to spend on productive public works, in addition to the sum which" you "borrow in India, any surplus revenue not hypothecated to other purposes," and you refer to the instances of outlay on protective works, and on works of which the capital cost is provided by native states or raised by local debenture loans.

9. These observations can only have been made under a misconception, not only of the nature and intention of my former instructions, but also of the grounds upon which they proceeded.

10. In my Despatches of the 31st of July and 12th of December 1878, Nos. 267 and 443, I pointed out the necessity for including in the budget arrangements for the year the total amount to be borrowed by provincial governments for productive works. I cordially approve of the policy of raising the money required for such works locally, which may be done either in the form of debenture loans, or by receiving sums at the various treasuries in the manner suggested in the 50th paragraph of my Despatch of the 17th of July last, No. 261; but, as such amounts will necessarily form part of the registered public debt of India, they must clearly be considered as part of, not as additional to, the sum of 2,500,000*l.* by which that debt may be annually increased on account of productive works. Pages 29 and 30.

11. The case of the outlay on protective works is of a different kind. As this is expenditure from revenue and not from borrowed money, so long as the amount of such outlay is spent on works calculated to guard against a probable future expenditure in the relief of the population, there can, as you observe, be no objection to its being laid out in the construction of "works directly remunerative or productive," and in that case it might be spent in addition to the 2,500,000*l.* sanctioned for the construction of such works from borrowed money. Inasmuch, however, as the sums raised for famine insurance may be required during the year for the direct relief of famine, or be diverted to other purposes, as in the exceptional circumstances of the past year, it would not be safe to authorise such expenditure on an estimate of surplus which might possibly not be realised. I must therefore now request that the amount granted from these sources for protective works, whether productive or not during any year, shall not exceed the balance of the moiety of the 1,500,000*l.* remaining over from the previous year to the credit of the account called for in the 24th paragraph of my Despatch of the 17th of July 1879, No. 261. Page 159.

12. Lastly, your Excellency refers to the case of "works the capital cost of which is provided by native states." In so far as this is a complete description of the works, and as the undertaking does not involve your Government in additional expenditure, there is no objection to their being carried on beyond the limit of outlay from your own funds. Any portion of the cost, however, which will have to be defrayed by your Government must be included within that limit. The importance of its being so reckoned is apparent from your letter of the 15th of September, No. 301, which stated that the portion of the capital cost of the railways bearing the names of Maharajahs Sindia and Holkar, which under the option secured to them by their agreements they have declined to advance, will have to be provided either from surplus revenue or by borrowing in the open market. Page 307.

13. I trust that after these explanations there can be no misunderstanding henceforth with regard to the views of Her Majesty's Government, as to the limits within which expenditure in India on productive public works must be at present confined. I am as deeply sensible as your Excellency's Government can be of the importance of the development of the material resources of India by well-considered public works; but, so far as these are undertaken by the State, the amount of the annual expenditure upon them must be governed by other considerations of equal or greater weight, and under present circumstances I have been reluctantly led to the conclusion that, until the financial prospects of your Government are such as to enable you to calculate with greater confidence the amount of the charges which may devolve upon your revenues, it is not desirable to appropriate annually a larger sum than 2,500,000*l.* to public works for which it is not found possible to provide in your ordinary estimates.

I have, &c.

CRANBROOK.

No. 35.

DESPATCH to the GOVERNMENT OF INDIA, November 27, 1879, No. 182 (Railway).

MY LORD,

I FORWARD for your information copy of a letter from Mr. F. S. Chapman, submitting suggestions for the extension of commercial lines of railway in India, together with a copy of the reply which I have directed to be made thereto, to the last paragraph of which I request your Excellency's attention.

I have, &c.

CRANBROOK.

Enclosure 1 in No. 35.

SUGGESTIONS for the extension of Commercial Lines of Railway in India.

36, Stanhope Gardens, S.W., October 22, 1879.

(1.) It seems to me that the unfavourable results which have been so much dwelt upon during the recent inquiries into what are termed "reproductive public works" can in a great measure be explained on the grounds of faulty classification.

(2.) Of course it may not only be perfectly legitimate but obligatory on the Government to construct a work which would bring ruin upon a body of shareholders; but which nevertheless yields a partial though wholly inadequate return.

(3.) The practical difficulty of discriminating between the nature of the several works has, I fear, had the effect of indefinitely postponing many projects which might be undertaken with great benefit to the country, and with a reasonable prospect of yielding a fair financial profit.

(4.) The question then arises as to what steps it behoves the Government to take, with a view to inducing private enterprise to come forward and do that which they have themselves, with so much reluctance, been compelled by pressure of circumstances to abandon.

(5.) Assuming a body of influential and reliable men were to entertain the idea of forming a public company, I think the Secretary of State might reasonably be asked to give them access to all documents relating to projects now in abeyance, and with permission to select such of them as appeared most favourable with a view to their being carried out on some such terms as these:—

1st. The company to enjoy the same rights quâ the construction of the work as the Government would have possessed had they undertaken it. I refer to royalties, the use of waste lands, and the adaptation of existing public roads and similar privileges.

2nd. The company to be allowed to utilize the services of the Government engineers on due payment for the same. There are, I apprehend, many men for whom occupation cannot now be found, and it would be of the first importance to secure the supervision of trained and trustworthy agency.

3rd. The company to be under such restrictions in respect to rates and general administration as are customary in England.

Everyone interested in the prosperity of India must lament the present state of stagnation in public works; and I hope and believe some such scheme as I have tried briefly to sketch may be found practicable. I have confined my proposals to railways, because I consider no irrigation works can or ought to be dis severed from the ordinary land revenue administration of the country.

F. S. CHAPMAN,

Late Bombay Civil Service,
and a Director of the G.I.P. Railway.

Enclosure 2 in No. 35.

The UNDER SECRETARY OF STATE for INDIA to Mr. F. S. CHAPMAN.

SIR,

November 26, 1879.

HAVING laid before Viscount Cranbrook the suggestion for the extension of commercial lines of railway in India, enclosed with your letter to me of the 28th ultimo, his Lordship desires me to remark upon them as follows:—

The Secretary of State has uniformly evinced a readiness to encourage the application of private capital and enterprise to railway extension in India, but, although still prepared to entertain favourably any specific and well digested scheme which may be submitted to him with that view, he cannot commit himself to any general pledges of assistance.

Access to any documents relating to projects now in abeyance of which this office is in possession will, as you request, be readily afforded to yourself or any gentleman associated with you, but his Lordship apprehends that there are but few of such documents at hand. He would suggest that a more practical course might be for you to communicate on the subject with the local governments in India. A copy of your letter and of this reply will be forward to the Government of India, with a request that suitable orders may be issued to facilitate the objects you have in view as far as may be practicable.

I am, &c.

LOUIS MALLET.

No. 36.

TELEGRAM to the VICEROY, December 2, 1879.

"YOURS 12th, Pipra Ghât. You must reconsider proposals on receipt of Financial Despatch No. 444, dated 13th November." Page 62.

No. 37.

DESPATCH to the GOVERNMENT OF INDIA, December 11, 1879, No. 485 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Excellency's letter, dated the 2nd of October 1879, No. 319, proposing to constitute a fund for the construction of productive public works, which would be supplied by annual grants from the Imperial, and sometimes from a Provincial Treasury, and from which all capital expenditure on productive public works would be directly defrayed; such expenditure being henceforth subject to the single condition that the balance at credit of the productive public works fund must never be absolutely exhausted. To prevent inconvenience in respect to ways and means, you would, nevertheless, require estimates as now of the expenditure from the fund contemplated during the year, and forbid any excess outlay without your consent in the Financial Department. Such a method would not, in your opinion, involve your pledging yourselves to grant any particular sum for expenditure on the construction of productive public works, or cause any relaxation of your financial control, as you would always take into account the condition of the fund when fixing the grant to be made for its supply. Page 54.

2. The reason which has led your Excellency to make this proposal is the inconvenience experienced by the executive agency of the Public Works Department from the application to the capital expenditure on productive works of the system of annual grants, the unspent balance of which lapses at the end of each financial year. In ordinary works apprehensions of the lapse of the year's grant, you observe, sometimes lead to the expenditure towards the end of the year being hurried, insufficiently considered, and wasteful; but you think it probably an unavoidable element in the system of annual estimates.

3. The evil is, however, said to be felt more seriously in the case of capital expenditure on productive works; and, in particular, you state that the uncertainty whether the large payments from the Home Treasury for railway dead stock and stores will fall into the accounts of one year or another perplexes the Executive in India, and makes it difficult to secure any close correspondence between the estimates and accounts of each year. Moreover, you see no reason why you should submit to the inconvenience, since capital expenditure on productive works does not enter into the annual comparison made between the public revenue and expenditure, in order to ascertain the general financial condition of the State.

4. It does not appear to me that the proposal which you make would obviate the difficulty of which you complain. It is doubtless true that it is a tendency of the budget system, under which unspent balances lapse at the end of the year, to lead executive officers towards its close to push on their expenditure, in order that the outlay may correspond as closely as possible with the estimate, and that the grant for the next year may not be reduced by the amount unspent. I do not, however, see in what manner an engineer, if not otherwise induced to exercise a careful supervision over the character of the work on which he is engaged, will be led to show more control and less reluctance to allow a hurried outlay, by the fact that the grants are made from a productive public works fund, rather than from the general balance in your treasury.

5. With regard to the uncertainty of information regarding the expenditure in this country, I have to observe that statements are despatched to India in the first week of each month, giving details of the payments made in the previous month, so that throughout the year your Public Works Department is kept informed of the payments actually made, and telegraphic information is sent, shortly before the budget is prepared in India, stating as nearly as can be ascertained what the actual charge will be for the closing year. In this case also I cannot see that the existence of a productive works fund will give any advantage over the existing budget system, under which, if it should appear that the grant made for any particular work will not be required

during the year, the unspent balance can be transferred with the consent of the Financial Department to another work if desirable.

6. Thus it does not seem that the proposal would be of advantage in the direction proposed, and there are serious disadvantages on the other hand. The statement given in the accounts regarding the capital outlay on productive public works would no longer be the amount spent during the year, but only the sum set apart at the beginning of the year on an estimate of the probable expenditure, supplemented perhaps by additional grants from other sources. Whether the amount of the estimate had been exceeded, or the reverse, would not appear from the account, and could only be ascertained by reference to the separate account which you propose to open.

7. Again, it might happen that at the beginning of the year the Public Works Department might hope to spend the full amount of the sum to be raised by loan, together with the whole or a portion of the accumulated balance in the fund, and thus you would have to borrow funds required for an estimate which after all might prove excessive. You appear to have overlooked the fact that, without giving up the control by the Financial Department, you have the power in the case of any sum allotted in the grant for one year lapsing at its expiration, to re-allot that amount in addition to the usual grant for the year. For example, if in a given year 2,500,000*l.* is borrowed for productive works, and allotted to the Public Works Department, it is possible that only 2,300,000*l.* may be spent, and that the remaining 200,000*l.* will lapse in the public works departmental budgets. If, in preparing the budget for the ensuing year, there should be good ground for supposing that 2,700,000*l.* can be profitably spent, there is no objection to your allotting that sum, care being taken that the average expenditure does not exceed the sum of 2,500,000*l.* annually. In this manner the evil pointed out in the 2nd paragraph of your letter will be fully obviated.

8. In regard to your subsidiary recommendations that the capital expenditure in this country on productive public works should be treated as a remittance to India, and that the amount so remitted should appear in your accounts in rupees, calculated at the average rate of exchange at which bills have been drawn on your Government during the year, it is only necessary for me to observe that the objections to the first proposal were stated in the Duke of Argyll's Despatch of the 11th of December 1872, No. 524, and those to the second in the Marquis of Salisbury's Despatches, dated the 27th of September and 31st of October 1877, Nos. 310 A. and 354, and that I concur in the instructions therein given.

I have, &c.
CRANBROOK.

No. 38.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, December 19, 1879, No. 405 (Financial).

24. THE increase of 12,000*l.* under 39, Productive public works (in the revised estimates for 1879-80), is owing to our having thought ourselves at liberty to authorise the expenditure of provincial funds on this class of works, in addition to the main grant. We understand from your Despatches Nos. 420, dated 23rd October, and 444, dated 13th November, that excess expenditure of this kind must not be permitted again.

Page 60.
Page 62.

No. 39.

DESPATCH to the GOVERNMENT OF INDIA, December 24, 1879, No. 199 (Railway).

MY LORD,

IN the prospectus issued by the Assam Railway Company, copy of which is herewith enclosed, it is stated that the Secretary of State has conditionally agreed to grant a subsidy in respect of the Makum branch, in addition to one in respect of the Trunk line.

2. I desire to be informed whether the Company have any authority from your

Government to make this statement. If so, I need scarcely say that I ought to have been distinctly advised of the fact, and not left to infer it from the Board's announcement to the public.

I have, &c.
CRANBROOK.

No. 40.

DESPATCH to the GOVERNMENT OF INDIA, December 24, 1879, No. 204 (Railway).

MY LORD,

PARAGRAPH 1. I have had under consideration in Council your Excellency's Railway Letter, No. 181, dated 10th July, 1879, forwarding papers relative to certain lines of railway which have been, or are about to be, constructed in the North-west Provinces, and requesting authority to the classification as productive public works of the Muttra-Hathras, the Dildarnagar, and the Achnera-Muttra Railways. Page 46.

2. The total outlay on the Muttra-Hathras Railway to the end of 1878 amounted to Rs. 10,49,358, and the net earnings in that year represented a return equivalent to 4.37 on that sum. Further expenditure, however, is contemplated, and you ask sanction to a total capital expenditure on the line of 12½ lacs. Of this amount, Rs. 3,43,900 have been raised on a guarantee of 4 per cent., Rs. 7,05,458 have been advanced out of provincial funds, and it is proposed to charge the balance, Rs. 2,00,642, to the productive public works grant.

3. I sanction the capital estimate of 12½ lacs, and am willing that the proposed outlay of two lacs of rupees should be charged to the productive public works grant when available.

4. Looking to the very exceptional circumstances of the other two cases named, they being of the nature of extensions of existing productive public works rather than independent projects, I have no objection to a similar course being followed with the Dildarnagar and the Muttra-Achnera Railways.

5. The former, 12 miles in length, is on the broad gauge, and connects the East Indian Railway with the Ganges, opposite the town of Ghazipur, the head-quarters of the opium agency in the North-west Provinces, and the traffic is estimated to yield a profit of 4 per cent. on the invested capital, a portion of which has been subscribed locally, and the balance will be met from the productive public works grant.

6. The Muttra-Achnera Railway is on the metre gauge, and connects the town of Muttra with the Rajputana Railway system. It will certainly, as long as the Jumna remains unbridged, be most conveniently worked by the same agency as the Rajputana line, and, in fact, it must at least for so long be regarded as substantially a part of that system.

7. As regards your Excellency's proposal to provide, at the cost of main lines, the rolling stock for working branch lines, it does not seem to be desirable to lay down, as a general principle, that main lines shall provide, without charge, the stock required to work branches having a separate capital account. In many such instances it may be expedient that the branch lines should be worked by the main line, thus obviating the necessity for the purchase of separate rolling stock; but the terms upon which this is done must be left for settlement in each case on its merits. In regard to some lines it may be expedient to fix a mileage rate as you have suggested which shall cover the hire of vehicles, and in other cases to make a separate charge for hire. Nor am I able to assent to the broad principle that it is in all cases proper that main lines, whether guaranteed or otherwise, should supply from their capital the rolling stock for working branches, and only charge the branches for such working the same per-centage on the gross earnings as on the main line.

I have, &c.
CRANBROOK.

No. 41.

LETTER from the GOVERNMENT OF INDIA, January 7, 1880, No. 8 (Financial).

MY LORD,

REFERRING to paragraph 13 of our Despatch upon the revised estimates for the current year, No. 405, dated 19th December, we propose, with your Lordship's con-

currence, to substitute for heads, XXVI. and 33, Guaranteed Railways, and XXVII. and 34, State Railways, a single head of "Railways" on each side of the account.

2. Under instructions from your Lordship, we have, since 1876-77, abandoned the practice of showing only the net charge on our revenues for guaranteed railways, and now show, on the one side, the net earnings from these railways, and on the other, the whole interest and surplus earnings paid to the companies. There is, therefore, now no substantial objection to the amalgamation of the two accounts, and it is always *prima facie* an advantage to reduce the number of the main heads of our abstract.

3. We have, however, the following special reasons for desiring the particular consolidation which we are now advocating. Our purchase of the East Indian Railway will render necessary transfers from the head of guaranteed railways to that of State railways, which, though not affecting the two heads together, will entirely vitiate a comparison of the transactions under each head alone with the transactions of past years, and cause, as already appears in our revised estimates, differences on the surface of the accounts which, if the two heads continue separate, will necessitate somewhat troublesome technical explanations.

4. As the other guaranteed railways are purchased, similar inconvenient apparent disturbances will recur.

5. Then, again, under the impending arrangement with the Sind, Punjab and Delhi Railway Company for the management of the Indus Valley State Railway, it will be impossible, without costly, inconclusive, and otherwise needless devices, to distinguish between the transactions of the State Railway and those of the guaranteed line. This arrangement also, if it succeeds as we expect, is likely to form a precedent for the working of other State railways also by guaranteed companies. We really do not see how it would be practicable to divide the record of such operations between two major heads of account.

6. A separate account will, of course, be kept of the transactions of the State railways which are worked separately, and, to whatever extent we may find it practicable and expedient, we can divide the transactions of the railways into the two categories of State and guaranteed lines as now. But this can be done quite as well under minor heads subsidiary to the main head of railways.

7. All that seems to us essential is that there shall be a separate account of the transactions of each line, whether State or guaranteed.

8. We should also be glad of permission to include our transactions with the Madras Canal Company under the heads, XXV. and 32, Irrigation and Navigation, thus getting rid of another head on each side of the account. It does not seem worth while to maintain separate major heads for the record of the transactions of the State with this unfortunate Company.

9. We take the opportunity of bringing under your Lordship's consideration the expediency of assimilating the record in the public accounts of the transactions affecting the revenue accounts of guaranteed and State railways. Till 1876-77 our accounts showed only the net result to the State of our transactions with the guaranteed companies. On the expediency of this arrangement being discussed in 1870, Her Majesty's Government* held very decidedly that this method was the correct method; and there is doubtless much to be said in favour of this view. Since 1876-77, however, under instructions from your Lordship, we have abandoned that plan and shown the net traffic earnings of the guaranteed railways on the one side and the gross interest and surplus profits paid to them on the other side.

10. The ground of the change was, we believe, that the distinction between guaranteed and State railways, though technically correct, was unsubstantial and unreal, and ought to be ignored. We are not sure, however, whether it was borne in mind that the change made did not assimilate the procedure completely to that of the State railway accounts, in which the gross earnings are recorded on one side and the working expenses on the other. It appears to us that it would be convenient that, whichever method be adopted, it should apply to both classes of railways. Either the gross earnings of the guaranteed companies should be recorded on one side and their working expenses on the other, or that procedure should be given up in regard to the State railways, their net earnings only being shown as in the case of the guaranteed undertakings. *Prima facie* the record of the gross earnings and working expenses accords the better with the principles of the public accounts; but the introduction of this method would cause a further great increase to the totals of our revenue and expenditure, and it would not perhaps be strictly consistent with the arrangements concluded

* Despatch No. 237, dated July 2, 1870, paragraphs 29 and 30.

for the management of the East Indian Railway and of the Indus Valley Line. Apparently, however, this last objection has been waived in principle, in the reform by which the net traffic earnings of the guaranteed undertakings were admitted to the public accounts.

11. Upon the whole question we await your Lordship's instructions, only repeating that it seems to us desirable that, whether the earnings and the working expenses be shown gross, or whether the earnings be shown net, a uniform procedure should be followed for all our railways and canals, State or guaranteed, leased or managed directly.

12. Again, there is another broad distinction between the record of the guaranteed lines and that of the State lines, in that the interest upon the capital cost of the one is recorded under railways, and that upon the capital cost of the other under interest. This incongruity is practically eliminated in the accounts which your Lordship now presents to Parliament, in which both these items are alike shown in the category of expenditure on productive public works (working expenses and interest). But we should be glad if your Lordship would concur in our transferring from railways to 1, interest on debt, in the first abstract which you have allowed us to retain, the whole of the guaranteed interest paid to the railway and canal companies.

13. This would remove the incongruity altogether, and would be in strict accordance with the character and object of that abstract. If all the proposals made in this Despatch should meet with your approval, the entries in the separate profit and loss account of productive public works would be much simplified, being confined, on the revenue side, to land revenue, irrigation and navigation, and railways, and, on the expenditure side, to interest, irrigation and navigation, and railways. We still, however, think that it would be expedient to add at least a fourth head on each side, namely, gain and loss by exchange. There will be very little time for your Lordship to deliberate upon the proposals made in this Despatch before our financial statement is made; but we are disposed to anticipate your easy concurrence in the proposal to substitute a single head of railways, and to incorporate the head of Madras Canal Company under irrigation and navigation.

14. As this measure will relieve us from the necessity for technical explanations of the transfers between the heads of guaranteed and State railways, which must follow upon the purchase of the East Indian Railway, we shall be glad of your assent thereto by telegram. If your Lordship should be able to telegraph, "one railway account approved," we shall understand that your sanction is limited, in the first instance, to the proposed consolidations only, and await further instructions upon the other questions discussed in this Despatch.

We have, &c.

LYTTON.

F. P. HAINES.

A. J. ARBUTHNOT

A. CLARKE.

JOHN STRACHEY.

E. B. JOHNSON.

W. STOKES.

RIVERS THOMPSON.

No. 42.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, February 5, 1880, No. 7
(Public Works).

PARAGRAPH 1. In addition to what is said in my Financial Despatch, No. 444, of 13th November 1879, in reply to your letter in the same department, No. 313, of 25th September last, I desire to make a few observations on some paragraphs in the same letter which refer particularly to public works. Page 62.

2. Not more than due stress is there laid on the imperative necessity which financial considerations have imposed on your Government for a large reduction (below the average of recent years) of the total annual outlay on public works, and on the consequent necessity for a proportionate reduction of the engineer establishment maintained for the execution and supervision of those works. You accordingly intend that the numerical strength of that establishment, which at present consists of about 1,200 Page 52.

members, shall be reduced immediately to 900, and shall eventually not exceed 800, of whom too a considerable number shall be natives of India.

3. You intend further that this permanent staff, whenever occasion may require, shall be temporarily supplemented, additional officers being engaged for particular works only, without claim to absentee allowances, pensions, or continuous employment, and you propose, moreover, to resort more and more to the employment for large undertakings of contractors with large capital, and to the development of the existing system of petty contracts for petty works.

4. The policy thus sketched has, taken as a whole, my cordial concurrence, and I regard with particular satisfaction that portion of the plan which contemplates the introduction of a considerable native element into the engineer branch of the public works establishment. The main cause of the present difficulty being, as you point out, that you are now burdened with establishments in excess of what, with the funds at your disposal, you could profitably employ, there can be no more effectual mode of preventing a recurrence of the inconvenience than by maintaining no permanent establishments in excess of those for which you may be reasonably certain of being able to provide full and constant employment.

No. 43.

DESPATCH to the GOVERNMENT OF INDIA, February 5, 1880, No. 13 (Railway).

MY LORD,

Page 55.

PARAGRAPH 1. I have had before me in Council your Excellency's Letter, No. 266, of 18th October last, regarding the regulation of expenditure on State railways, and I desire to give my cordial assent to the sound principles laid down in the first eight paragraphs of that letter.

2. According to these principles, the criterion of the remunerative prospect of a State railway project will not be its promise to pay at once full interest on an estimate of capital expenditure sufficient to meet the wants of a traffic which it may take years perhaps to develop, but that it shall afford reasonable ground for the expectation that it will after a moderate interval more than pay the interest on the first direct outlay, and that there shall be some available resource, such as the surplus provincial revenues, from which to meet any deficiency for annual interest or otherwise, arising before equilibrium shall have been established.

3. It should, therefore, be a fundamental maxim, not to be deviated from unless in exceptional circumstances, to permit no larger first outlay on a railway than that absolutely essential to provide on a sound basis for such traffic as may be counted on during the first two or three years. The road and works should of course be thoroughly well constructed, whilst the stations and other buildings should be limited to what is strictly necessary for the amount of traffic just indicated, but so designed as to admit of expansion whenever it should be required; and similarly the rolling stock should be restricted to what will suffice for such moderate traffic as can be fairly expected on the opening of the line.

4. There should, in like manner, be a steady control maintained on subsequent capital outlay. This does not mean that such outlay should be prohibited, or that the revenue should be unduly charged to meet wants which would legitimately be met from capital. The first principle of course would be, in respect to additions, as in respect to first outlay, that there should be a reasonable expectation of the increased income covering (at least) the interest on the new charge.

5. So long as a railway was in its stage of development, and had not reached a condition in which its net receipts covered the interest on the first cost, all additions at the cost of capital should be strictly limited to what was essential to remove defects of original construction, or to meet wants arising out of a growing traffic, or to increase economy of working. Mere considerations of convenience, which did not in some important degree affect the growth of the traffic, should be set aside until the line began to pay the interest on the capital. When this stage had been reached greater liberality could with safety be permitted, though continued caution would be required to prevent every sort of capital outlay which would not serve either to increase the traffic or guard against its falling off or improve economy of working.

6. I may observe that nothing has been more decisively established by railway experience in India, than the prudence of resisting all sudden demands made on the

plea of urgency for new works or additions. In a great majority of cases such demands prove in the end to have had no real justification. All proposals for capital outlay should, therefore, be rigidly required to be brought forward on the annual budget estimate, after the estimated cost of each proposal shall have been duly sanctioned on full inquiry as to the necessities of each case. By strict adherence to this rule much wholly wasteful outlay will be avoided. The only real urgency that can arise on a railway is for renewal or maintenance at the charge of revenue. Among the most plausible of the arguments, under cover of which large additions to capital outlay have been pressed for and sanctioned, are those based on alleged difficulties in meeting the pressure of the traffic; but in almost every such case it has been found in the end that the difficulty was caused by defective management, and that the additional stock, &c. has come long after the pressure had passed away, and consequently has remained idle, or nearly so, for a long time afterwards.

7. The foregoing observations apply to State railways, but I may take this opportunity of referring to a kindred subject, the incidence of expenditure on guaranteed lines. Questions very difficult of settlement are, as your Excellency is aware, continually arising as to whether expenditure on those lines is more properly debitable to capital or to revenue. The still pending case of the cost of the Parell workshops of the Great Indian Peninsula Railway Company is distinctly one in point. There seems, however, to be a simple way of obviating every future difficulty of the kind. The guaranteed railways have for the most part attained to a stage at which the sanction of capital expenditure will very rarely be absolutely incumbent under the contract. Whenever, therefore, any further expenditure for purposes other than maintenance or working is proposed it will generally be competent to Government to refuse its sanction, excepting on such conditions as it may deem fitting to impose. It seems, then, advisable that henceforth there should be a rule binding on every local government or administration, or other authority possessing sanctioning power in the matter, that no expenditure, the proper incidence of which can possibly be called in question, be permitted on guaranteed lines until it has been definitively arranged, with the expressed concurrence of the company concerned, whether capital or revenue shall be charged with the proposed outlay.

8. I request that the precise form in which some such rule should be laid down may receive the careful consideration of your Government.

9. In the cases of guaranteed railway companies, the assent of those companies is necessary before capital expenditure can be incurred, and it will also be proper to consult the East Indian Railway Company before authorising any capital expenditure under the new contract. It therefore seems desirable that the budget estimate for capital outlay on the guaranteed railways and the East Indian Railway should be sent home, together with the orders of your Government on it, in time to admit of exchange of views between the Secretary of State and the boards before the commencement of each financial year. It is also most desirable that all important departures from such budget estimate should be reported from time to time, and in the case of the East Indian Railway, for which it may be thought desirable that the Secretary of State should find capital funds in England, and for which therefore Parliamentary sanction must be obtained, regular notice of sanctioned indents, to comply with which such funds will be required in this country, should be given at the earliest date.

I have, &c.

CRANBROOK.

No. 44.

EXTRACTS from DESPATCH to the GOVERNMENT OF INDIA, February 19, 1880, No. 54 (Financial).

PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 19th of December 1879, No. 405, transmitting an abstract of your revised estimates of revenue and expenditure in 1879-80.

2. In the revenue there is the very gratifying improvement of 2,494,000l.; and, although this is to a great extent counterbalanced by an increase of expenditure to the extent of 2,135,000l., yet, as this is due to the determination to construct, in connexion with the military operations in countries on the North-western frontier of India, railways towards Kandahar, Khushalgarh, and Pesháwar, at an expense of 2,500,000l. in 1879-80, the revised estimates give, on the whole, a highly satisfactory

view of your finances. I reserve detailed comments for the usual review, after the receipt of your financial statement for the year 1880-81.

3. With regard to the expenditure just mentioned on the frontier railways, you have entered it in the estimates under State railways, notwithstanding the instructions I had given that it should be included under the head of Army, and your own orders carrying those instructions into effect. Your reasons for so doing are that, as the lines will be worked as commercial undertakings, it is not convenient that their capital cost should appear under the head of Army, and that it seems scarcely justifiable to connect the cost of great permanent works of this kind exclusively with the recent and present operations in Afghanistan.

4. I regret that, after full consideration of these arguments, I have not felt justified in acceding to your request to more than a limited extent. The continuation of the Punjab Northern Railway from Jhelum to Rawal Pindi is, I consider, a work of a permanent character, calculated to be of material benefit to the population of the country through which it passes, and one which would sooner or later have been constructed without reference to the special considerations which led to its being undertaken in the present year. I therefore sanction the capital cost of the extension being entered under State railways, ordinary, though it must not be added to the capital expenditure on the Punjab Northern line, which has been defrayed from borrowed money.

5. With regard, however, to any continuation of the line beyond Rawal Pindi to Peshawar, and to the construction of the lines to Khushalgarh and to Kandahar, the information which I have hitherto received does not justify me in viewing them in any other light than as works undertaken for military and political purposes, and in immediate connexion with the present operations. Pending further explanations, therefore, I have not thought it right, in reference to this expenditure, to depart from the orders previously given.

* * * * *

10. Before concluding, I must refer to the form in which the revised estimates have been forwarded. In the second paragraph of my Despatch of the 17th of July 1879, No. 261, I assented to the retention of Abstract No. 1, in addition to No. 2, as you said that the former was important for purposes in India. The figures now sent, however, are given only in the Form No. 1, which conveys no information regarding productive public works. It is an essential part of the policy of Her Majesty's Government to carry on productive works in India on different principles from those applicable to other branches of the administration; and it appears to me that confusion must result from such a statement as that showing the estimated revenue and expenditure on State railways in 1879-80, as 2,081,000*l.* and 3,751,000*l.* respectively, in which the receipts and outlay, whether for capital or revenue purposes, on ordinary State railways, the net revenue of the East Indian Railway during the last quarter of the year, the revenue, working expenses, and interest of productive works, and the cost of the frontier railways constructed for military objects, are all blended together as if the receipts and disbursements respectively were of the same character. I request, therefore, that in all accounts or estimates intended for use in this country, and all comments thereon, the figures used may be such as are contained in Form No. 2, which will enable the receipts and expenditure from productive public works to be distinctly shown, apart from those of the ordinary administration.

No. 45.

EXTRACTS from LETTER from the GOVERNMENT OF INDIA, February 25, 1880, No. 81.

8. We trust that your Lordship will approve of our having re-granted for expenditure on productive public works in 1880-81, as an addition to the fixed grant of 2,500,000*l.*, the 182,000*l.* which we learnt from your telegram, dated 7th February, that you would not spend in 1879-80. This re-grant was necessary to prevent the entire disarrangement of our programme for the construction of such works in the coming year, which there was no time to reconsider. We were at first disposed to doubt whether, in presence of the excess expenditure under this head in 1879-80 as compared with the original grant, such re-grant was proper. But this excess is nominal, being caused by the record under this head of the 220,000*l.* by which the East Indian Railway Company had overdrawn their capital account before the transfer of their property to us. The other supplementary grants made during 1879-80 were necessary

in order to facilitate the introduction of the new system of a fixed grant restricted to 2,500,000/. A more abrupt enforcement of this restriction would have caused serious inconvenience. We have no reason to suppose that any further supplementary grants of this kind will be required.

15. In paragraph 245 of the statement we have made a comparative analysis of our net expenditure in 1868-69, 1869-70, 1879-80, and 1880-81, which contains, we believe, all the information required by your Lordship. Briefly, the improvement of 1,500,000/. our claim to which your Lordship criticises, is explained by the inclusion of the railway transactions with the other public works transactions.

18. We fully share your Lordship's desire to encourage local investments in our funds, and have had various plans under consideration for the promotion of such investments, some of which will, we hope, bear fruit. We notice in particular the introduction of the new and liberal savings' bank rules described in paragraph 148 of our statement, and the local debenture loans detailed in paragraph 210. The discouragement of these local debenture loans is a consequence of the restriction of our expenditure on the construction of productive public works, which we especially regret. We shall probably try, presently, the experiment of an open local debenture loan of moderate amount and restricted venue. If this succeeds, it may prove to be the solution of the problem which your Lordship desires.

[For extracts from the Financial Statement, see Enclosure in No. 152, page 309.]

No. 46.

DESPATCH to the GOVERNMENT OF INDIA, February 26, 1880, No. 65 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 7th of January, No. 8, relating to the manner of showing in the abstract of revenue and expenditure the transactions of the various classes of railways.

2. You observe that the purchase of the East Indian Railway will render necessary transfers from the head of guaranteed railways to that of State railways, which will vitiate a comparison of the transactions under each head alone with those of past years, and that as other guaranteed lines are purchased similar inconveniences will recur.

3. In speaking of the transfer to the head of State railways, your Excellency appears to have overlooked the fact that in my Despatch of the 20th of November 1879, No. 458, I requested that the revenue and charges of the East Indian Railway might be shown, not as amalgamated with State railways, but in one line on each side of the account by itself. I am sensible, however, that as further lines were purchased it would become more and more inconvenient in the abstract to exhibit each railway separately, and that sooner or later the amalgamation of the operations of the various railways on this page of the accounts would become necessary.

4. I have, therefore, consented by a telegram, of which a copy is given in the margin, to your amalgamating the transactions of the State and guaranteed railways; provided, however, that the details relating to ordinary works are not mixed up with those of productive works. My sanction extends also to your proposal to class the receipts and expenditure of the Madras Canal Company with those relating to irrigation and navigation generally.

5. It will be necessary that the subsidiary accounts should show, as proposed in the 7th paragraph of your letter, the transactions of each railway, and it is desirable that they should be so arranged as to exhibit at a glance the total results of the State lines, of the guaranteed lines purchased by the Government, and of the guaranteed lines still worked under their former contracts.

6. Your Excellency in the 9th and following paragraphs points out the incongruity of bringing into the account the net traffic receipts of the guaranteed lines, and the gross receipts of the State lines on the one side; while on the other side the working and maintenance charges are excluded in the case of the former, and included in that of the latter railways; and you ask that, whether the earnings be shown gross or net, a uniform procedure may be followed.

7. I admit the want of uniformity, but I do not think it necessary to remove it. The two classes of lines are constructed on dissimilar principles. In the case of the State lines the Government is directly concerned in the construction and management, and therefore the gross receipts and the gross expenses are properly shown in the accounts; whereas for the guaranteed lines the Government is rather in the position of a banker, receiving the gross receipts on the part of the companies, and advancing the money to defray the working expenses, but not directly dealing with the money on its own account until the net receipts are ascertained, when the Government has to defray therefrom the charges for interest, &c.

8. Hence it appears to me that the proposed change would not merely be objectionable as vitiating a comparison with former years, but also as being based on a misconception of the facts.

Page 72.

9. So again I am unable to consent to the proposal that the guaranteed interest should be amalgamated with the interest on the public debt. As your Excellency has not explained the character and object of the first abstract which you have asked permission to retain for purposes in India, I cannot form an opinion how far such a change is desirable in regard to it. As, however, I have pointed out in my Despatch of the 19th of February last, No. 54, it is essential that for all purposes in this country the productive works transactions should be separated from the ordinary revenue and expenditure, and I cannot agree to any proposal which will have the effect of confusing the two classes.

10. Except in so far as the figures relating to the East Indian Railway will be united in the abstract with those of the other lines, I request that the instructions given in my Despatch of the 20th of November last, No. 458, regarding this railway may be acted on.

11. In one respect it appears to me that the form in which the expenditure on productive works is now shown is capable of improvement. It clearly exhibits the results of these works taken altogether, and from it may be readily gathered at present the net result of the guaranteed railways. The results of the State railways or the irrigation works cannot, however, be ascertained from this abstract, because the interest on debt incurred for productive works is entered in a lump sum, although separately shown in the subsidiary accounts. I have accordingly to request that in future accounts this charge may be subdivided between State railways and irrigation works. The following will then be the form :—

Revenue from Productive Public Works.

Land revenue.
Irrigation and navigation.
Railways.

Expenditure on Productive Public Works (Working Expenses, Interest, and Terminable Annuities).

Interest on debt incurred for productive public works :—

Irrigation.
State railways.
Irrigation and Navigation : (working and maintenance, and interest for Madras Canal Company).
Railways : (working and maintenance of State lines; interest, surplus profit, &c. of guaranteed lines; and interest, annuity, and surplus profits, &c. of East Indian Railway).

I have, &c.
CRANBROOK.

No. 47.

LETTER from the GOVERNMENT OF INDIA, March 10, 1880, No. 92 (Financial).

MY LORD,

Page 66.

WE have the honour to acknowledge the receipt of your Railway Despatch, No. 199, dated 24th December 1879, regarding the grant of a subsidy in respect of the Makum branch of the Dibrugarh and Sadiya Railway, in addition to the subsidy for the Trunk line.

2. The proceedings connected with the subsidy for the Trunk line were reported

in our Financial Despatch No. 166, dated 16th June 1879, and approved in your Lordship's Despatch No. 128 R., dated 28th August 1879. Page 39.
Page 51.

3. Meanwhile we sanctioned a guarantee of Rs. 20,000 a year for a branch extension of the railway to the Makum coalfields, and the Chief Commissioner of Assam was authorised to insert in the agreement, which was then being drawn up regarding the Dibrugarh and Sadiya line, a stipulation for the grant of this subsidy. The draft agreement has in the main been approved by the Government of India, but has not yet been finally settled. It was intended to report the proceedings to your Lordship on receipt of the deed, as finally settled, from the Chief Commissioner of Assam.

We have, &c.

LYTTON.

F. P. HAINES.

A. J. ARBUTHNOT.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

RIVERS THOMPSON.

ALEX. FRASER.

No. 48.

DESPATCH to the GOVERNMENT OF INDIA, March 25, 1880, No. 103 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Letter, dated the 4th February, No. 47, forwarding, for my sanction, a revised estimate for the Patna-Gaya Railway, amounting to Rs. 40,38,017.

2. This estimate is Rs. 9,63,017 in excess of your original estimate of Rs. 30,75,000 (which, by a clerical error, was given in your Letter of the 15th May 1879, No. 135, as Rs. 31,75,000), being an increase of about 31 per cent., the principal portion of which you state is due to additional expenditure under the three heads of (1) Land, (2) Ballast and Permanent Way, and (3) Rolling Stock. Page 35.

3. In explanation of the increase of Rs. 99,607 under the first head, you state that the original estimate was based on a very low valuation of the land, and also on the surmise that much of the land would be provided free of charge, but that the owners of the land have all required payment, and the price has been higher than was anticipated.

4. This result bears out the observation in paragraph 4 of my Despatch of the 31st July 1879, No. 292, that, "however good may have been the prospect of raising a loan from the native landowners and capitalists for the construction of a work likely to benefit the neighbourhood of the places in which their property is situated, it may be apprehended that there will be much less disposition on their part to advance the funds after the line has been constructed without their assistance." It is to be regretted that the disposition of the landowners to contribute towards the expense of the proposed line was not ascertained more accurately before the estimate of its cost was framed. Page 50.

5. The very large charge of Rs. 6,41,098 on account of ballast and permanent way is stated to have been necessary, as the only alternative was to close the line for traffic during the rains.

6. The estimated additional charge of Rs. 2 lacs may, you state, subsequently be increased by Rs. 5 lacs, should it not be found possible to arrange with the East Indian Railway Company for working the line.

7. Having regard to the large sum already expended on the Patna-Gaya Railway, I will not refuse my sanction to the revised estimate which you have submitted; and I trust that the Lieutenant Governor's favourable anticipation may, even with this addition to the capital charge, be justified by the result.

I have, &c.

CRANBROOK.

No. 49.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, April 15, 1880, No. 119
(Financial).

11. I am thus forced to the conclusion that, unless the drawings are continued so long as there is a good demand for bills, there would be no alternative but to raise money by borrowing in England at a later period of the year. Such a step would, in my opinion, be far more damaging to the credit of the Government than the raising of a loan in India; and as, moreover, the necessity for it would manifestly have been caused by your refraining from strengthening your balances by the usual loan in India, while proceeding to incur an outlay of more than three millions sterling during the year on productive public works, it would be alleged that it was the expenditure on such works which made the occasion for borrowing in this country, and hence the recommendations of the Select Committee of the House of Commons would have been disregarded, and the pledges given by Her Majesty's Government to Parliament would have been violated.

12. Independently, too, of these considerations, there are grave objections to any addition to the sterling debt. Many measures have been adopted in recent years which, though reducing the military and civil expenditure in India, have added considerably to the non-effective charges in this country; and the policy of constructing public works through the agency of the State, while greatly increasing the payments for stores purchased in England, has led to a discontinuance of the raising and deposit in the Home Treasury of railway capital, which for many years aided the Government in meeting the demands. On extraordinary emergencies, such as the famine in Southern India, it may become impossible to avoid resorting to a loan in England, again increasing the expenditure for which remittances must be made from India. From these and similar causes, it has happened that the amount of bills which it has been necessary to offer for sale has risen from 6,789,473*l.* in 1864-65 to 13,939,095*l.* in 1872-73 (in neither of which years was any money raised by loan in this country), and is now further increased to 17,000,000*l.* (reduced to 15,000,000*l.* by the loan from the British Government) in 1879-80, and 16,900,000*l.* for 1880-81. Borrowing in England merely to reduce the amount of the Secretary of State's drawings can only purchase temporary relief at the expense of greater embarrassment hereafter, and it must be obvious that, unless some reduction of the debt in England be made in seasons of financial prosperity, the time may come when it will be impossible to meet the increasing requirements of the Home Government by drafts on India.

13. I trust that you will find no serious difficulty in surmounting the present inconvenience caused by my decision, and that on another occasion your financial arrangements will be so made that no doubt may exist as to your power of meeting drawings of even 50 lacs a week at this period of the year, if the necessities of the Home Treasury and the condition of the market make it desirable to offer so large an amount.

14. I have only further to observe that it is, in my opinion, better that a moderate sum should be borrowed each year for productive works, than that the cash balances should be dangerously reduced at one season, and be refilled by an unusually large loan in the following year.

No. 50.

EXTRACT of LETTER from the GOVERNMENT OF INDIA, May 11, 1880, No. 148
(Financial).

IN our Despatch No. 262, dated 18th August 1879, we forwarded proposals for the extension of the Tihút Railway from Muzaffarpúr to Bettia (78 miles), and from Darbhanga to Píprá Ghát (24 miles), and stated that in our opinion we should be justified in constructing these extensions as productive public works.

2. In presence, however, of the restriction of our expenditure on that class of works to Rs. 2,50,00,000 a year, we only asked your Lordship's predecessor to sanction the construction of the eastern extension at an estimated cost of Rs. 13,00,000; and, even this, upon the condition that the Government of Bengal should raise by a local debenture loan any part of the amount which it could not provide from its ordinary provincial resources.

3. On the 2nd December Viscount Cranbrook instructed us by telegram to reconsider these proposals on the receipt of his Financial Despatch No. 444, dated 13th November, in which he intimated to us, amongst other things, that any money raised for the construction of productive works by local debenture loans must be included in the total Rs. 2,50,00,000 a year, to which the amount to be borrowed for the construction of such works is, for the present, restricted.

4. Having, accordingly, carefully reconsidered our proposals for the construction of these extensions of the Tihút Railway in the light of that Despatch, we now again ask Her Majesty's Government to sanction their construction as productive public works at a total cost of Rs. 60,00,000.

No. 51.

LETTER from the GOVERNMENT OF INDIA, June 1, 1880, No. 170 (Financial).

MY LORD MARQUIS,

THE terms on which we consented to grant a subsidy to the Assam Light Railway Company for the construction of a railway between Dibrugarh and Sadiya were approved in Lord Cranbrook's Despatch No. 128R., dated the 28th August 1879. We have now sanctioned a modification of those terms in the manner proposed in the accompanying Letter from the Chief Commissioner of Assam, No. 45T, dated the 20th March last, and we trust our action in the matter will be confirmed by your Lordship.

2. It is with reluctance that we have allowed the extension of the term of guarantee from five to twenty years; but we felt assured that, unless the efforts of the projectors were thus met in a liberal spirit, the scheme would have collapsed, and its failure would have been a misfortune to the province.

We have, &c.

LYTTON.

F. P. HAINES.

J. STRACHEY.

E. B. JOHNSON.

RIVERS THOMPSON.

J. GIBBS.

ALEX. FRASER.

No. 52.

LETTER from the GOVERNMENT OF INDIA, June 8, 1880, No. 184 (Financial).

MY LORD MARQUIS,

WE have the honour to forward, for the information of Her Majesty's Government, an interesting Minute by our honourable colleague, Major-General Fraser, R.E., describing the chief railways, works of irrigation, and telegraphs, under construction or projected for early construction in India.

2. In paragraph 15, General Fraser gives details of the principal railways, the construction of which he advocates as funds may become available, and which he classes as follows :—

	Miles.	Estimated cost in lakhs.
To be constructed from ordi- } Military lines -	228	153 $\frac{1}{2}$
nary revenues - } Protective lines -	700	536
Productive lines to be constructed from the grant for the construction of productive public works	877 $\frac{1}{4}$	553
Total -	1,805 $\frac{1}{4}$	1,242 $\frac{1}{2}$

3. The conditions upon which we shall construct protective works are not as yet settled, but we hope before long to mature proposals upon the subject. The financial distinction between such works and other works constructed from our ordinary revenues will lie in this, that we shall be free, under such restrictions as Her Majesty's Government may prescribe, to use the famine insurance surplus upon the construction of protective but not upon the construction of other works.

4. We cannot pledge ourselves, or ask your Lordship to pledge Her Majesty's Government, to sanction each of the works recommended by General Fraser, or to adopt in each case the classification of these works which he suggests. The classification of each work will depend upon the facts ascertained in respect to it before its construction is actually sanctioned, and, as stated by General Fraser in the fifth paragraph of his Minute, further inquiries through the local governments, and the preparation of detailed estimates and returns, will in many cases be necessary. Orders will be issued at once on this subject. But General Fraser's forecast will be highly useful as a general sketch of operations in the immediate future, and in this character we trust that it will meet the approval of Her Majesty's Government.

5. In paragraphs 52 and 72 General Fraser describes the irrigation works in progress, but, as all the resources available for this class of work are appropriated for five years to come, our honourable colleague makes no new proposals.

6. The review of the operations of the telegraph department in paragraphs 73 to 88 is satisfactory and encouraging, and we concur with General Fraser in commending the careful management of this department.

7. We may probably address your Lordship hereafter upon the subject discussed in paragraphs 91 to 94 of the Minute.

We have, &c.

LYTTON.

F. P. HAINES.

J. STRACHEY.

E. B. JOHNSON.

RIVERS THOMPSON.

J. GIBBS.

ALEX. FRASER.

Enclosure in No. 52.

MINUTE by Major-General ALEX. FRASER, R.E., May 6, 1880.

Page 4.

1. In the Viceroy's Minute of the 12th March 1878, his Excellency laid down the principles which would guide the Government of India and local governments in the prosecution of public works.

2. In accordance with those views, several of the local governments and administrations submitted proposals for the construction of cheap local lines of railway to be carried out on provincial responsibility.

3. These proposals were not complete in detail, but the general outline of operations was marked out, and a programme of operations extending over 5 or 10 years was sketched.

4. Surveys were required to bring the projects into a condition fit for submission to the Secretary of State; but the outburst of the war with Afghanistan, combined with pressure from home to reduce expenditure, put an end for the time being to the survey work which had been taken in hand.

5. Some of these surveys are, however, finished, and we have materials, collected at other times for other purposes, on which to base proposals for the development of the cheap system of local railways; and I now submit, in accordance with the Viceroy's wishes as expressed in his Excellency's speech of the 2nd instant, a definite programme "for an extended scheme of cheap railway communication," so that local governments may be ready to carry it into execution "whenever we are in a position to undertake it with the sanction of the Secretary of State." If this programme meet with approval, definite orders might issue to local governments for the preparation and collection of detailed estimates of cost, and returns of anticipated traffic, in order that we may obtain the sanction of the Secretary of State to the construction, as funds become available, of those lines which are found to fulfil all necessary conditions, either as imperial, productive, or protective public works.

6. Commencing in the south-eastern portion of the empire, we have completed the railway of

Metre gauge—	Miles.	Cost.	169 miles from Rangoon to Prome, and we have surveys and
Rangoon to Prome	169	125½ lakhs.	estimates for an extension from Prome to Allan-myo on our
Prome to Allan-myo	42	37½ "	frontier, a distance of 42 miles, and from Rangoon to Toung-ngu,
Rangoon to Toung-ngu	164	117 "	a distance of 164 miles.

7. No other railways are required in Burma at present, and the two above named, though they will largely tend to the development of this very rich province, are wanted in a great degree for military purposes. This is specially the case in respect of the line from Rangoon to Toung-ngu, one which it would be well to commence at the earliest date that funds can be spared for the purpose, but there is no prospect of the line fulfilling the conditions prescribed for productive public works. It will, however, in the end, be highly remunerative, as it opens out a tract of country which, though fertile, is at present but sparsely inhabited, and where the immigrants that now flock into British Burma will find a large field for the profitable exercise of their labour. Indeed, so assured

is the Chief Commissioner of the ultimate success of the line that he has not hesitated to undertake the responsibility of the interest on its cost.

8. In Assam it was in contemplation, in the beginning of 1878, to extend the Rangpur branch of the Northern Bengal Railway up to the banks of the Brahmaputra at Dhubri, and to establish a steamer service from that point up the river to Dibrugarh.

9. On careful examination of the country it has been found that to take the line over the Tista, 10 miles from Rangpur, will involve great expenditure on account of the unstable character of the rivers. Communication, therefore, has been now established between the terminus of the railway at the Tista and Dhubri by means of road and dâk gharries. This will make a reduction in the time of transit to Assam of some 48 hours.

10. In Upper Assam a company has been organised to construct a light railway between Dibrugarh and Sadiya with a branch to the coal mines at Makum. Total length of line 87 miles. The local administration has guaranteed a minimum dividend of 5 per cent. for five years from the date of the completion of the works, provided it does not involve a larger payment in any one year than Rs. 1,00,000. The company has been started in London under highly respectable auspices, and, with the slight change lately made in the terms of the concessions, will, no doubt, be received with favour by the investing public. The line would be most useful to the rapidly spreading tea gardens near Sadiya, and the supply of coal will be of great service to the maintenance of the steam communication.

11. In Bengal we have already 435 miles of railway for which the provincial government has undertaken financial responsibility. One of these, the Patna-Gaya, only just opened to traffic and hardly complete, is bringing in such returns that there is every hope of its paying 6 or 7 per cent. on its capital cost. On another, the Northern Bengal, the goods traffic in 1879 is double the quantity carried in 1878, while the passenger traffic shows an augmentation of 50 per cent. This line (the Northern Bengal) is being extended by means of a steam tramway, on a gauge of two feet, up to the Darjiling sanitarium by a private company, to which the Bengal Government has guaranteed a maximum gross earning of two lakhs of rupees per annum. The company has been engaged in laying rails for some time back, and expects to have an engine or two out before long.

12. The Secretary of State has been, or will immediately be, asked to sanction an extension of the two branches of the Tirhut railway for a further distance of 102 miles at a cost of about 45 lakhs of rupees. These extensions run through one of the most populous districts of Behar, and there is but little doubt of their bringing in a very handsome return on their very moderate mileage cost.

13. Another work to which great importance is attached is the connexion of the Eastern Bengal and East Indian Railways by a bridge over the Hugli. This can be effected by two alternative schemes, either by a branch from Ranaghat on the Eastern Bengal to Memari on the East Indian Railway, a distance of 34 miles, estimated to cost 42 lakhs, or by a bridge at Hugli station on the East Indian Railway, 4 miles from the Eastern Bengal Railway, estimated to cost 19 lakhs.

The latter alternative has been adopted, and the work ought to be regarded as a component part of the imperial, not of the provincial, railway system of Bengal. This, and the line referred to in paragraph 12, would be constructed as productive works; the latter as an imperial work, and the former under the financial responsibility of the Government of Bengal.

14. The Lieutenant-Governor of Bengal is very anxious to make a branch from the Calcutta and South-eastern Railway to Diamond Harbour, a distance of 29 miles, at a cost of 22 lakhs, on the broad gauge; but personally I should prefer to undertake another project on his Honour's list, namely, the construction of a railway on the metre gauge from opposite Goalanda on the Eastern Bengal to Dacca and Narainganj on the Meghna, with an extension to Maimansinh on the Brahmaputra. The total length of this line would be about 128 miles, and its cost about 128 lakhs. This line is rather expensive on account of a large bridge which has to be built near Goalanda; but it is believed that the construction of the bridge may for the present be deferred, while the value of the line as a means of communication, which may eventually be extended along the left bank of the Brahmaputra into Assam, cannot be disputed. The native press constantly urge the importance of this project on the attention of Government, and it is probably safe, from the wealth of the country, to pay a good return on its capital cost. This would be constructed as a productive work, provided that on full further investigation the necessary conditions are found to be fulfilled.

15. There is another system of railways in Bengal which it is proposed to build on the broad gauge. It consists of a line running from Khulna on the south, via Jessor and Ranaghat, up to Bhagwangola on the north. This line runs across the Eastern Bengal Railway, and is intended to have connexion with Calcutta through Dum-Dum and Bangaon. The total length of the line is 241 miles.

16. The lines proposed in Bengal, for all of which we have detailed plans and estimates, measure 503 miles in length, and are estimated to cost 435 lakhs. I do not think there is any probability of our being able to expend all this money under 8 or 10 years. It seems to me that, if we take the link connecting the East Indian and Eastern Bengal Railway off Bengal's hands, there is no necessity for us to apply for sanction for any lines beyond the extension of the Tirhut system already gone home, and, subject to the further inquiry that will be necessary, the Dacca group.

17. In the North-west and Oudh the only line open to traffic is the Muttra-Hathras, 29 miles, metre gauge; but the provincial government expects to open within the next six months 87 miles between Cawnpore and Farrukhabad, also metre gauge, and a broad gauge branch from the East Indian Railway, 12½ miles, to the banks of the Ganges opposite Ghazipur at a cost of 6½ lakhs. Besides these, the Secretary of State has sanctioned the connexion of Muttra with the Rajputana Railway, by a line 24 miles in length, at a cost of 9 lakhs. This work was partially built during the famine of 1877-78, and it ought to be opened for traffic by the close of next official year.

18. The North-western Provinces and Oudh Government elaborated, on his Excellency's Minute of the 12th March 1878, a large scheme for the construction of light railways, extending over no less than 1,125 miles in addition to the lines which are in hand as above. We cannot, of course, take the whole of this system, which will cost close on six millions sterling, at once in hand, nor is it probable that the whole of the works could, under the existing rules, be constructed as productive works. It seems to me that, if we undertake, as a productive work, to join the Cawnpore-Farrukhabad Railway with the Muttra-Hathras, 90 miles, and if we make, as a protective work, one of the two lines, about 150 miles in length, which are intended to open out the isolated districts of Bundelkhand, the Government will commit itself to as large an expenditure as it is likely to be able to meet in the North-west Provinces for some years. These lines will require the provincial government to bridge the Jumna at two points, Muttra and Kalpi, and we can hardly hope to complete these railways much under 1½ millions sterling.

19. A private company, with Indian domicile, is about to take up the construction of a railway to Ranibagh, at the foot of the hills below Naini Tal, on the metre gauge, under a local guarantee that will commit the Government to no further expenditure than it has already to incur for the repairs of roads, &c. I trust, if this line prove successful, that the Company will be encouraged to make branches which will cover some of the ground which the North-western Provinces' Government propose to occupy with provincial light railways.

20. The Military Commission on army organization have urged the Government of India to complete the line between Moradabad and Saharanpur. The importance of this line has been admitted in a Despatch to the Secretary of State, and the only question in regard to it which remains unsettled is the date on which it should be taken in hand; but, considering the many urgent demands there are for the improvement of military communications, it is not probable that funds will be available for a line which simply serves as an alternative to a railway, equally good through road, between Bengal and the Punjab.

21. In the Punjab the only local lines which have been under discussion have been branches from the Sind, Punjab, and Delhi Railway from Umballa and Amritsar to Kalka and Pathankot, 40 and 60 miles respectively. Both these should possibly be on the broad gauge, and both will probably prove remunerative. They will besides have a military value, as they improve the approaches to the hill stations Simla, Kasauli, Dagshai, Subathu, and Dalhousie.

22. But the Punjab will be very poorly supplied, in comparison with its area and population, with cheap lines of rail, if more development than is at present proposed is not given to the system. What I should like to see is an extension of the Rajputana Railway metre gauge north-westward from near Delhi towards Firozpur, about 300 miles. I am sure these lines will prove reproductive, and they will open out a district which is and will be watered by two of our largest irrigation canals, the Western Jumna and Sirhind.

23. The Army Commission has recorded its opinion in favour of the retention of Firozpur as the arsenal for our frontier line of defence, and therefore the short railway from Raewind to Firozpur, which has been long under consideration, should be built without much further loss of time. This should be constructed as an ordinary military charge, though it will probably prove remunerative by diverting the grain trade on the Sutlej River to the Sind, Punjab, and Delhi Railway.

24. The Punjab is served by the Punjab Northern, the Sind, Punjab, and the Indus Valley, and Salt Branch Railways. If to these be added the lines above mentioned, and the Salt branch be prolonged a few miles towards Dera Ismail Khan, I think the province will be well supplied with railway communication, and the Government will have strengthened very considerably our means of gathering, on our frontier posts of Peshawar, Kohat, Dera Ismail Khan, and Multan, large armies at short notice, with their supplies of ammunition from Firozpur and Rawal Pindi; and grain, &c., from the districts through which pass the East Indian, the Sind, Punjab, and Delhi, the Oudh and Rohilkhand Railways, and the metre gauge lines of Rajputana, Malwa, and the North-west.

25. I do not allude in the body of this Minute to the proposed extensions of our frontier railways beyond Peshawar and Kohat, because their construction is dependent on considerations quite apart from those under review.

26. Our newly assigned territory of Sibi and the Peshin Valley will be traversed through its whole breadth by the Kandahar Railway now under construction.

27. Nothing further is needed in that direction, nor do I think that, after the completion of the bridge over the Indus at Sukkur, we want for the present any more large railway works in Sind. The Indus Valley Railway runs through the richest part of that country, and the connexion of that railway with the Bombay system, passing as it would do through an uninhabited and waterless country, may safely be deferred, either till there is danger of losing our perfect control over our sea route to Karachi, or until our funds are more superabundant than at present.

28. In Bombay the lines which have been suggested for construction, outside those being built in native states with the money of their princes, are (1), an extension of the Dakor branch of the Baroda Railway across the Mahi River into the Panch Mahal, a distance of 17 miles, on the broad gauge; (2), a branch 40 miles in length off the Dhond and Manmad Railway to Toka and Pyton on the borders of his Highness the Nizam's dominions near Aurangabad; (3), a line from Hüdgi 10 miles south of Sholapur, on the Great Indian Peninsula Railway, down to Gadak or Hubli, about 170 miles, of metre gauge; and lastly, (4), a line from either Karwar or Mormugao Bay to Bellary.

29. The first of these lines can be classed as a productive work, and with the guarantee promised by the Bombay Government might, I think, be handed over to the Baroda Company to be made under their guarantee. It opens out a district which we took over in 1857 from the Maharajah Sindhia, and which is cut off from our other possessions by the territory of his Highness the Gaekwar and other native chiefs.

30. The second, a branch of the Dhond and Manmad, runs through a fertile piece of country bordering the Godavari, and would add considerably to the revenues of the Dhond and Manmad, though in itself it would not yield a fair return on its capital cost.

31. The third line, Hüdgi to Gadak or Hubli, is urgently wanted as a protective work during seasons of scarcity. It has already been commenced as a famine work, and from the nature of the country, which periodically suffers from drought, it ought to be completed at the earliest opportunity when funds can be made available for the construction of this class of work.

32. The last, Bellary to Karwar or Mormugao, has been long under discussion, and is now about to be made the subject of a joint-stock enterprise, under the auspices of the Duke of Sutherland and other well-known gentlemen, aided by a promised guarantee from the Portuguese Government. Nothing can be done towards the construction of this line by the Government, until the promoters of the company have had an opportunity of deciding whether they will carry out the enterprise, after the completion of the examination of the country by an officer sent out by them. If dropped by them, it will have to be taken in hand by us as a protective work, after the completion of the Hüdgi-Hubli Railway.

33. Madras has been singularly lucky in the extent of railway it has had constructed under a guarantee. The southern part of the presidency is covered with a network of lines, while in the north railway construction is most difficult, on account of the large rivers which pour into the sea on that part of the coast, and on account of the barrier of hills that run parallel with the shore at a short distance inland.

Metre gauge—	Miles.	
Dindigal to Potanur	80	
Broad gauge—		
Karnul branch	50	
Metre gauge—		
Mysore to Beypur and through Wainad	150	

34. The lines which have been suggested are a second connecting link from Dindigal on the South Indian to Potanur on the Madras Railway; a branch to Karnul from Gundakal or Adoni; and an extension of the Mysore Railway through the Wainad to Beypur.

35. None of these lines are urgently wanted, nor has the Government of Madras shown any disposition to press forward their construction.

36. Something will have to be done towards opening out that great block of country which lies between the Madras, Great Indian Peninsula, and East Indian Railways, and the Bay of Bengal; but for railways in this area we must look to the action being taken in the Central Provinces, which administration should place itself in communication with Bengal, with the object of laying out a plan of operations for continuous extension in the territories under the jurisdiction of that Government.

37. The Central Provinces' Administration is constructing a railway in extension of the Nagpur branch of the Great Indian Peninsula to Dongargarh, a distance of 125 miles, on the metre gauge. It is proposed to extend this line a further distance of about 135 miles to Bilaspur, as well as to make a branch from it northwards on to the highlands of Balaghat and down to Jabalpur. The land is rich in coal and minerals, part of it is the granary of Central India, but the line is flanked on the south by the wildest country and densest forests in India. It ought, however, to be built at an early date, and it should be extended both to the north and south in order to bring the Central Provinces into direct communication with the East Indian Railway system, and with the sea coast of the Northern Circars, either at Vizagapatam, or Cuttack and False Point. It would seem desirable to have these ports carefully examined by engineers and marine surveyors with a view of taking their capabilities into consideration when the railway surveys are made.

38. There is another line which ought to be built in the Central Provinces, from Gadawara to Sagar and Gwalior, picking up the metre gauge lines into Bundelkhand from the North-western

Provinces. These lines will not, I am afraid, come into the category of productive public works; but the famines of Orissa have taught us the danger of leaving provinces entirely destitute of all means of access either by rail or water; and I think it is essential that we should run no risk of a repetition of either a similar disaster in the same province or in provinces equally cut off like Bundelkhand, from other parts of India. Personally I should be inclined to make the line between Agra and Gadawara an extension of the broad gauge from Gwalior passing through Jhansi as well as Sagar. It will be the connecting link between the East Indian at Agra and the Great Indian Peninsula at Gadawara, and should possibly be on the same gauge, and, looking to the great development of trade which may be expected with the construction of cheap local railways, we should be prepared to open up this new country, thereby providing at the same time for any excess traffic on the Rajputana lines towards Bombay. I should prefer taking up this line to prolonging the Oudh and Rohilkhand Railway as proposed in paragraph 20, and, as it would be in connexion with the narrow gauge system through Bundelkhand, we should have alternative estimates for the cost on each gauge. These railways, with those suggested in the two previous paragraphs, will open out the two great areas of country which remain unsupplied with railway communication, and indeed with much communication of any kind. But, as these lines would be expensive, and not probably come under the category of productive public works, their construction is a work of the future.

39. My review of what we are doing and what we propose to do towards opening out India would not be complete, without a notice of what is being done in the territories of our feudatories.

40. The great railway now approaching completion, which we have made through Rajputana into Malwa and the Bombay Presidency, has ensured the part of the country immediately contiguous to it from the worst effects of famine; but our work will not have fulfilled its purpose until branches are made from it into the large areas of country that lie between it and our other railways. Her Highness the Begum of Bhopal has set a good example, by offering to construct at her own sole cost a branch from the Great Indian Peninsula near Hoshangabad to Bhopal and Sehore. I hope her example will be imitated by other Princes, and that we will not have long to wait for the complete intersection of Rajputana and Malwa by cheap lines made at the cost of the sovereigns of that part of the country.

41. Although outside the intention of this Minute, I take the opportunity of saying a few words on the subject of the frontier railways.

42. It was only in September last (the 18th) that the Viceroy laid down the programme which his Excellency expected the Public Works Department to carry out in regard to these works. That department and its officers have well responded to the call of the head of the Government for energetic action, for at this date there is every prospect of the works being completed in all respects as was desired.

43. The manner in which the first section of the Kandahar line has been executed by Col. Lindsay, R.E., and his officers, under the orders of his Excellency Sir Richard Temple, has already been made the subject of favourable notice by the Government of India in its Resolution Nos. 079-080 RC, dated 6th February 1880.

44. The still more difficult work—the extension of the Punjab Northern from Jhelum to Rawal Pindi, and its prolongation, on the one hand to Peshawar, and on the other to Khushalgarh on the left bank of the Indus—is being completed, with equal energy and success, through a most difficult country, involving heavy rock-cuttings of some 60 feet in depth, and over viaducts close upon 100 feet high.

45. For the extraordinary progress of these works the Government is, in the first place, indebted to the ability and foresight of the Director General of Railways, Major-Genl. J. S. Trevor, R.E.; to Mr. Molesworth, the Consulting Engineer to the Government of India for State railways; and to Lieut.-Col. Pemberton, R.E., the Director of Stores. By their ceaseless attention to the immediate wants of the executive officers, these—Mr. Lambert, the Engineer-in-Chief of the most difficult portion between Jhelum and Rawal Pindi, Mr. O'Callaghan, on the line between Rawal Pindi and Peshawar, and Captain Gracey, R.E., in charge of the line from the junction beyond Rawal Pindi to Khushalgarh,—have, with that vigour for which they were already distinguished, been able to carry on these important lines of communication, so that the Government may hope that trains will run through to Rawal Pindi by the end of May, to Attock and Khushalgarh in August, and to Peshawar early in the winter of this year. By that season, saving the bridge over the Indus at Attock, which is however in hand, the communication by rail will be complete between Calcutta, Madras, Bombay, Karachi, and Peshawar.

46. I am quite satisfied that no Government in the world could be better served by its civil and military engineers, and subordinates, than has been the Government of India by the vigorous and able officers who have conducted these operations, which promise to complete, in good time, the plans the Viceroy had only so short a time previously laid down; and the carrying out of which has been, and still is, surrounded with difficulties.

47. To sum up my conclusions:—We shall have built, by the end of this official year, under guarantee, 6,065 miles, of which all but 633 are on the broad gauge. We shall have finished through Imperial State agency 1,860 miles, of which 778 miles will be on the metre gauge. We shall have completed 633 miles through provincial agency, of which all but 127 miles are on the metre gauge; and we have got 166 miles of rail carried out at the sole cost of our allies.

48. The only new work we shall be building in 1880–81, besides a short branch to the South of India Railway through the agency of guaranteed companies, is the Benares bridge. But through State agency we shall have in hand 1,186 miles under our own officers, of which 302 are being carried out with funds provided by native states, and we shall have 253 miles under construction on provincial responsibility.

49. This will give us at the end of 1879-80 about 8,724 miles of railway open for traffic, which I trust to see augmented by 988 more miles before the end of 1880-81, leaving by the end of 1881-82 about 474 miles for us to finish, of a total of 10,186 miles.

50. What I now propose, with a view to proceed on a proper basis when funds become available, is that we should arrange to commence the following lines:—

Proposed Lines and Provinces.	Gauge.	Length in Miles.	Cost in lakhs.	Class of Public Works.
BURMA.				
1. Rangoon and Toung-ngu - - - - -	Metre	164	117	Military.
BENGAL.				
1. Tirhut Railway extensions - - - - -	"	103	45	Productive.
2. Dacca, Maimansingh, and Goalanda lines - - - - -	"	128	128	"
3. Hugli Bridge - - - - -	Broad	4	19	"
NORTH-WESTERN PROVINCES AND OUDH.				
1. Farrukhabad and Hathras Road junction and Muttra Bridge - - - - -	Metre	90	50	"
2. Bundelkhand extension from Cawnpore on the East Indian Railway - - - - -	"	150	100	Protective
PUNJAB.				
1. Kalka branch - - - - -	Broad	40	24	Military.
2. Pathankot branch - - - - -	"	60	36	Productive.
3. Extension of Rajputana Railway from Delhi towards Ferozpur, with branches - - - - -	Metre	300	120	"
4. Ferozpur to Raewind - - - - -	Broad	24	12½	Military.
SIND.				
1. Indus Bridge at Sukkur - - - - -	"	1½	30	Productive.
BOMBAY.				
1. Railway from Hudgi to Gadak or Hubli - - - - -	Metre	170	136	Protective.
2. Branch from Dhond and Manmad Railway - - - - -	Broad	40	30	Productive.
3. Mormugao or Karwar and Bellary Railway to be constructed by the Stafford House Committee, - - - - -	Metre	250	200	Private enterprise or protective.
4. Extension of Baroda Railway into Panchmahal - - - - -	Broad	17	15	Productive.
MADRAS.				
1. Kattul branch - - - - -	"	50	50	Protective.
2. { Dindigul to Potanur - - - - -	Metre	80	50	"
or				
Mysore via Wainad to Beypur* - - - - -	"	150*	150*	"
CENTRAL PROVINCES.				
1. Extension of Nagpur-Chhatisgarh line towards Chutia-Nagpur. - - - - -	"	135	80	Productive.
Total - - - - -		1,805½	1,242½	

* This alternative line is left out in the totals.

ABSTRACT of above PROPOSALS.

Gauge.	MILITARY.		PRODUCTIVE.		PROTECTIVE.		TOTALS.	
	Miles.	Lakhs.	Miles.	Lakhs.	Miles.	Lakhs.	Miles.	Lakhs.
Broad - - - - -	64	36½	122½	130	50	50	236½	216½
Metre - - - - -	164	117	755	423	650	486	1,569	1,026
Total Broad and Metre - - - - -	228	153½	877½	553	700	536	1,805½	1,242½

51. I do not refer to our proposed contribution towards the railway to be built by Her Highness of Bhopal, because our expenditure will be trifling, and will probably be met before 1881-82; nor do I propose to lay out any money in making railways in native states. I think we have done a fair amount of work already in that direction, and we should confine our further assistance to making any small patches of line which may fall within our own territory, and which the chiefs may require to connect their lines with our railway systems.

IRRIGATION.

52. Turning now to our irrigation schemes, I find that during the current and previous official			years the aggregate outlay on productive irrigation works has amounted to 1,592,054 <i>l</i> . This has been expended on projects all of which were in progress in previous years; no new work has been put in hand.
1878-79	-	794,654	
1879-80	-	797,400	
		<u>1,592,054</u>	

53. The estimated outlay in 1880-81, amounting to 630,000*l*., will also be expended on these projects, and at the close of the year the balance required to complete them, so far as they have been sanctioned, is estimated at 2,841,113*l*.

54. Commencing from the eastward, the projects in Bengal still under construction are, the Orissa, Midnapur, and Son irrigation systems.

55. The outlay on the Orissa project is chiefly on the completion of the navigable communication from Cuttack to False Point Harbour, and on distributaries. The remaining portions of the work, so far as they have been sanctioned, are expected to be complete in 1880-81. The financial prospects of this project have been more hopeful since 1878-79, when the cultivators for the first time generally began to take irrigation from the canals, wherever distributaries were provided, and their lands protected by embankments from the river inundation. This points to the necessity for adding as soon as possible to the extent of the distributary system from the existing canals, a large proportion of which it was considered advisable to hold in abeyance, until it could be seen how far they were likely to be utilised. Detailed estimates are awaited for the additional distributary channels now considered necessary.

56. Estimates, aggregating 344,574*l*., for a navigable canal along the coast, to connect the existing tidal canal with the estuaries of the Mahanadi river and the Orissa system of canals, have been received, and are under consideration. The projected canal is 93 miles in length, and when completed there will be an uninterrupted navigable communication from Calcutta to the Dhamra, an estuary of the Mahanadi river. From the latter to the river Daib, near Puri, the tidal creeks are being improved for navigation, the expenditure being defrayed from provincial funds. This may form the first portion of a continuous inland navigable line along the coast projected to connect Orissa ultimately with the canals of the Godavari and Kistna deltas, which again have been lately connected with the city of Madras by the Buckingham canal. From the Dhamra to Vizagapatam, where a new harbour has been suggested, the direct distance is 330 miles, or 400 miles to the junction with the Godavari channels. If it be decided after completion of the surveys to bring the Central Provinces Railway to Cuttack, it may be sufficient to stop the canal at the river Dhamra, but, if Vizagapatam be the southern terminus of the railway, then it may be desirable to extend the canal to Vizagapatam.

57. The outlay on the Midnapur canals has been chiefly on the completion of the distributary system. Here also, as in Orissa, the cultivators have lately begun to irrigate to a large extent, and, if the demand continues to increase, storage works may be found necessary to supplement the supply of water in the river Kasai in the dry season. Steam navigation has been commenced along the canal from Midnapur to Calcutta.

58. The outlay on the Son project has been mainly on the Bazar branch and the distributary system. The Bazar branch will, it is expected, be practically complete by the close of 1880-81, as well as some of its distributary channels. Irrigation is being developed at a fair rate of extension on the Arrah and Patna branches, and on both steam navigation has been commenced.

59. In North Behar two small projects have been carried out which deserve a passing notice, as they are the first in those localities to the construction of which the cultivators interested have given pecuniary aid. The Saran project on the right bank of the Gandak river has been carried out with provincial funds, and interest on the outlay at 4½ per cent, has been guaranteed by the planters who will benefit by the scheme. In the second case, the Teeur project in Champaran, on the left bank of the Gandak, has been completed at a cost of 7,854*l*., of which 7,100*l*. was contributed by the landholder, Baboo Doorga Prosad Singh.

60. In the North-western Provinces a small outlay was incurred on the Agra canal in completing distributary and drainage channels, but the greater portion of the expenditure was on the completion works of the old Ganges canal and on the new Lower Ganges canal. The latter was opened in November 1878, and irrigation was commenced from it for the spring crop of that year. The main channel and portions of the branches and distributaries are now complete, and irrigation is being taken from them. The completion works of the old Ganges canal are being pushed on as rapidly as the supply of funds and the necessity of maintaining the existing irrigation will admit. Irrigation has commenced from portions of the new branches. A comprehensive scheme of drainage channels for the tracts affected by the canals between the rivers Ganges and Jumna has been sketched out, and the works are being gradually carried out as rapidly as the supply of funds will permit. Designs and estimates for two projects to supply irrigation in Bundelkhand have been submitted, but, owing to the uncertainty as to the probable financial results, it has been considered advisable to hold them in abeyance for the present, till some conclusion is arrived at about the appropriation of surplus balances for construction of protective works.

61. In the Punjab the largest portion of the outlay has been on the new Sirhind canal, in which the native states of Patiala, Jind, and Nabha are co-proprietors with the British Government, and on the improvements to the old Western Jumna canal. The works on the former have been and are being vigorously proceeded with. Engineering difficulties in the construction of some of the large works in the valley of the Sutlej, near the head, which at one time threatened seriously to delay the opening of the Sirhind canal, have at last been overcome by the ingenuity and continued exertions

of the superintending engineer, Colonel R. Home, R.E., under the orders of the Lieutenant-Governor of the Punjab, and the direction of General Gulliver, R.E., the chief engineer, and his officers, and there is now little doubt of the canal being ready for the admission of water within two years from this date. The weir across the river Sutlej at the head of the canal will, it is expected, be practically complete before the monsoon of the present year. Good progress has been made on the branch channels, so that irrigation may be commenced as soon as the works at the head of the canal are sufficiently advanced to allow of water being admitted. On the new channels for the Western Jumna canal the progress has been more rapid than was expected, more than half the work sanctioned has been completed.

62. Progress on the Swat canal in the Peshawar Valley was retarded during the past year by the demand for labour on the works in the Khaibar Pass, to supply which a considerable number of the labourers on the canal were taken away.

63. In Madras the outlay during the last two years was distributed among five projects, the Godavari, Kistna, Pennar, Cauvery, and Srivaikuntham. The last three are practically complete, estimates are still awaited for the completion of the Godavari delta system of works. For the completion of the Kistna works, designs and estimates have been under the consideration of Government, but orders cannot be passed on them, pending the receipt from the Madras Government of information as to the estimated returns which has been called for.

64. The works on which productive public works funds have been expended in Bombay (excluding Sind) are all, with the exception of the Muta project, small. Of the total number of seven, two are complete, the remainder will be finished at the close of 1880-81.

65. In Sind; two projects, the Eastern Nara and Bigari canals, have been under construction for some years as productive public works; the expenditure on the Nara has ceased; the only work in the category remaining to be completed at the end of 1880-81 will be the Bigari canal. Designs and estimates for two projects, the Neera canal and Mhaswad tank, estimated at 397,735*l*. and 181,577*l*. respectively, have been under consideration. The expected financial results, however, are not sufficiently favourable to allow of their admission into the category of productive public works, but, as protective public works to be constructed from ordinary funds, they may again be taken into consideration. Besides the irrigation projects classed as productive public works, those constructed from the ordinary revenues yield large returns in the various provinces.

66. The aggregate area irrigated in the year 1878-79, the latest for which returns are available, in the three provinces of Bengal, North-west, and Punjab, was 5,545 square miles, of which 1,678½ square miles, or about one-third, were irrigated by the ordinary irrigation works. In Sind alone the area of irrigation in the year 1877-78 was 2,166 square miles, of which only 279 square miles were watered by the two projects classed as productive public works. The total area in the whole of India under irrigation, as recorded up to the end of 1878-79, was 15,341 square miles, which may increase to 16,000 square miles by the end of 1880-81. If the works in hand are completed, the estimated increase will bring the above area up to 22,000 square miles.

67. In Ajmere, an extensive series of tanks, old and new, irrigates 20,000 acres, besides maintaining a supply of water in the wells from which it is drawn for irrigation. Without these tanks the district would be almost a desert.

68. Of works constructed from ordinary funds, for purposes of protection, the embankments in Burma and Sind are worthy of notice.

69. The Burma embankments are carried along the Irawadi river, and two of its effluents, for the protection of cultivable land from the overflow of the rivers. These embankments are now 175½ miles in length, and have cost 285,000*l*., protecting about 1,100 square miles of the valley. The question of the extension of these embankments has been much discussed, and with reference thereto elaborate investigations have been made, the report of which has lately been received, and is now under consideration.

70. In Sind the right bank of the river Indus is embanked, from the boundary of the Punjab to the range of hills which abuts on the river at Sehwan. The upper portion, 47 miles in length, was first constructed in 1874-75 to protect the cantonment of Jacobabad and the collectorate of Shikarpur, and is now of still greater importance with reference to the railway from Sukkur to Jacobabad. Since the monsoon of 1878, when it was seriously injured by the floods, the embankment has been strengthened, and during the monsoon of last year remained uninjured, though put to a severe test from the height of the floods.

71. A proposal has come up from the agent to the Governor General in Baluchistan for bunding, the Nara river, with a view to the irrigation of the Kachhi desert, which should have early consideration.

72. As the productive public works now in progress cannot be completed at the present rate of expenditure in less than five years, I have not considered it necessary to make a forecast of outlay on new projects, pending the receipt of the recommendations of the Famine Commission.

TELEGRAPHS.

73. Finally, I may review the operations of the Indian Telegraph Department. The inland telegraph system has now been extended to embrace nearly all the large towns lying on or near the main lines of communication throughout the country. It extends through Burma, to Amherst in the Tenasserim division; to Silchar on the eastern frontier; to Dibrugarh in upper Assam; to Darjiling, Bettia, Almora, Landaur, Chakrata, Simla, Dalhousie, and Sialkot, on the northern frontier; to Abbottabad, and the whole of the frontier posts on the north-west border, and to all the principal towns on the sea coast from Karachi to Cape Comorin and from Cape Comorin to Calcutta.

74. The eastern portion of the central provinces, and all the country from the line of the East Indian railway southwards to the Kistna, is the most backward in telegraph development, as it is in communications generally.

75. The further extension of the inland telegraph system must, as the funds are limited, be chiefly shaped according to the further extension of the railway system, and in the provision of lines as circumstances may require on political or military grounds. But the importance of connecting with the main lines of communications new commercial centres which may arise as the trade and industries of the country develop should be steadily kept in view.

76. At the close of 1878-79 the system embraced 17,971 miles of line carrying 43,891 miles of wire. During the year 1879-80, 1,137 miles of new line will have been completed, and 3,344 lines of wire erected, raising the totals to 19,108 miles of line, and 47,235 miles of wire. Temporary lines have been run up in Assam as far as Kohima to assist operations against the Nagas. The line from Rawal Pindi to Peshawar has been doubled to provide for the sudden development of traffic on the north-western frontier. The line from Peshawar to Dhaka has been made permanent, and doubled as far as Lundi Kotah, and the line from Dhaka to Kabul has been reconstructed, while the permanent reconstruction of the line through the Kuram Valley has been partially completed. An extra wire has been hung between Poona and Satara; and a portion of the lines from Amritsar to Dalhousie and Dharmasala was erected.

77. But by far the larger proportion of the work done was in connexion with railways. An extra wire has been hung between Ajmere and Jaipur on the Rajputana State Railway. The reconstruction of the telegraph along the line of the Cawnpore-Farrukhabad Light Railway, the construction of the telegraph along the Rukh-Sibi Railway, the Villupuram-Gingee section of the South Indian Railway, and the Ratlam-Nimach section of the Nimach and Nasirabad State Railway have been completed. And the lines for the Muttra-Hathras Light Railway, the Rawal-Pindi-Peshawar Railway, the Kathiawar State Railway, the Bangalore-Mysore State Railway, the Nagpur-Chhatisgarh State Railway, and the Beawar-Pahlanpur section of the Rajputana State Railway, have been partially completed.

78. Provision has been made for expenditure during 1880-81 on completing the following railway lines of telegraph:—

Hathras-Muttra.
Rawal-Pindi-Peshawar.
" Khushalgarh.
Sibi-Kandahar.
Dabhoi-Baroda.
Tembi-Junction-Dhoraji.
Bangalore-Mysore.
Madras-Tanjore.
Trichinopoly-Tuticorin.
Itarsi-Bhopal.
Nimach-Nasirabad.
Pahlanpur-Beawar.

and for proceeding with the line for the Nagpur-Chhatisgarh State Railway.

79. Provision is also made for the construction of a branch line from Pathankot to Madhupur at the head of the Bari Doab canal; for a permanent line from Dera Ismail Khan to Tank; for an extra wire from Limri to Dundooka in Kathiawar, and another between Satara and Kolhapur; for constructing a new line from Kolhapur to Ratnagiri with branches to Chiplun and Rajapur; for a new line from Kamari on the Rajputana State Railway to Abu, to re-connect the latter place with the telegraph system; and for an extra wire between Madras and Bellary.

80. A lakh of rupees has also been allotted for possible future extensions in Afghanistan.

81. Proposals have been under consideration for extending the telegraph from Moulmein to Tavoy and Mergui in Tenasserim on administrative grounds, and also for connecting Port Blair with the telegraph system by a cable, but neither of these projects are of sufficient importance at the present moment to justify the heavy expenditure that would be entailed with slender prospects of returns. Besides these there are no other proposals of importance for extending the inland system.

82. The connexion of the British Indian system with that of neighbouring States has made progress. Negotiations have been undertaken for the connexion of the British system with that of Siam by a line from Tavoy to the frontier. The connexion of the line from Mandalay in Independent Burma had been previously completed; and by the end of the current year an extension will have been completed from Sialkot to the frontier for the purpose of connecting with the Kashmir system.

83. The telegraphs of Ceylon have been for many years managed by the Indian Telegraph Department under an agreement. Arrangements have now been concluded for the resumption by Ceylon of the working of its own telegraphs from the 1st July 1880. These are in direct connexion by cable with the Indian system.

84. With the exception of the railway, military, and political lines, which are obligatory, the further extension of the telegraph system must depend on the growth of commercial demands on the one hand, and on the cheapness and efficiency of the management on the other. The subject of cheap local extensions is now under consideration.

85. The department has at length, by careful management, commenced to yield revenue, and it is possible that the telegraphs may yet develop into a valuable property commercially as well as administratively.

86. A proposal for the introduction of a word tariff at a cheaper rate than the six word tariff now in force has been considered, but abandoned for the present, as the financial position is not yet strong enough for the measure, but the desirability of this reform should not be lost sight of, and there is room to hope that it may be possible to introduce it before long.

87. In the meantime, the double charge for telegrams sent at night, and on Sundays and holidays, has been abolished; the rate on messages between India and Burma has been assimilated to that between stations in India, by the abolition of the 50 per cent. extra charge; the charge for Press telegrams sent at night has been reduced by 33 per cent.; the permissible length of ordinary telegrams has been increased; and the cost of telegraphic remittances has been largely reduced.

88. The construction of private lines has increased considerably of late years, and is becoming an important branch of the business.

GENERAL.

89. In drawing up this Minute of what has been done in the past, and the forecast of what is proposed in the future, I have been assisted by those able officers of Government, Major-General J. Crofton, R.E., Inspector-General of Irrigation, Major-General J. S. Trevor, R.E., Director-General of Railways, and Colonel R. Murray, Director-General of Telegraphs; and these officers concur with me in the propriety of the proposals for the future, so far as funds, available within the next six or seven years, will permit the works to be carried out.

90. I may add that it will be well to have the programme above set forth considered in the Financial department of the Government of India. None know better than I do how necessary it is to be in full agreement with that Department as to the expenditure of money on public works. A sudden accession of funds for the purpose of stimulating their progress is little less uneconomical than a sudden withdrawal of such funds. In the one case we have not the establishment to supervise the expenditure, which leads to great difficulty in meeting promptly the requirements of Government; while on the other we are left with an establishment which we cannot employ, which leads to its demoralization and to useless expenditure. The Public Works Department has, I am glad to think, always been able to meet any emergencies with which it has had to deal, and no better proof of this can be adduced than that which is indicated in the records of the year now coming to a close; but it is quite certain that, the more regular the development of work and the supply of funds, the easier it will be to administer the department economically and satisfactorily. The arrangement lately sanctioned by the Secretary of State, under which the unexpended portion of the grants for productive public works of one year is added to the assignment for the following, will enable us to distribute our expenditure with greater freedom over the year. Hitherto, in consequence of never being able to forecast with accuracy our liabilities at home, we have, as the year came to a close, found large balances that we had either to give up, or to lay out in picking up in this country articles which we could have got both better and cheaper, could we have paid for them in the following year. This specially applies to railways, on which the expenditure at home is very large.

91. I look, however, with great regret on the late orders of the Secretary of State, whereby all sums, whether raised by local debentures or taken from provincial balances, which it is proposed to expend on productive public works, are to be constituted part of the $2\frac{1}{2}$ millions which have been set aside for the total annual outlay on works of this class in India.

92. Provincial balances have only been laid out in cases where the local governments have been anxious to secure greater progress than is possible out of their share of the total productive public works grant for the empire. If no benefit is to accrue to them for thus devoting provincial funds to productive instead of ordinary public works, the local governments will cease to use those funds for the former purpose, and the only end achieved by the enforcement of the orders of the Secretary of State will be that available money will be laid out, not on the works which are regarded as most important and most urgent, but on those on which expenditure will not involve the loss of a corresponding sum from the productive public works assignment.

93. Local loans are, I think, most useful when applied to carrying out purely local objects. Many of the large towns of the country are situated at some distance from the main lines of railway, which moreover often run far (as locally considered) from populous and wealthy local centres. The connexions of such towns or centres with the railways are undertakings that might, in most instances, be left with advantage to the local residents to carry out with funds raised among themselves. Again it happens, especially in Bengal, that a wealthy zemindar is anxious to develop his estate, and is willing to advance money, to be laid out for that purpose, either on railway or irrigation schemes, if assured by Government against the total loss of his investment. I do not touch on the political advantage of enlisting, in support of the administration, the wealth of the country, nor do I dwell on the value of money expended on works of utility, instead of being squandered in sensuality or pomp, or hidden in pots buried beneath the floors of dwellings. These are points which do not legitimately fall within the field of schemes for the extension of railways, irrigation, or telegraphs. All I urge is that we should aim, so far as lies in our power, at giving natives of the country some objects on which the investment of their money will bring home to them, not only interest in cash, but a material improvement of their circumstances and conditions of life.

94. It may be argued that there is no bar to the raising of funds for local improvements, and that all that is proposed is to treat such sums as part of the capital borrowed for productive public works. But it is obvious that, if we are really to improve as a whole the communications of so vast a country as India, we must study general provincial benefit rather than local convenience. It is the distinction between these two objects wherein lies the differences in the application of a general and a local fund; and it is because the enforcement of the orders of the Secretary of State will lead to the destruction of this distinction, and to the disappointment of people who may have an intelligent anxiety to employ

their wealth in the directions I have named, that I regret his Lordship should have thought it desirable to instruct us to treat the imperial and local loans or advances as one common fund.

95. With these observations, I beg to submit this Minute, with maps illustrating the programme, for the orders of his Excellency the Viceroy.

ALEX. FRASER

No. 53.

DESPATCH to the GOVERNMENT OF INDIA, June 17, 1880, No. 57 (Railway).

MY LORD MARQUIS,

PARAGRAPH 1. In Lord Lytton's Financial Despatch, No. 124, of 20th April 1880, purporting to report certain concessions made to a private company in consideration of its undertaking to construct and work a light railway between Bareilly and Ranibagh, will be found the following sentence:—

“The nature of these concessions will appear from the correspondence herewith submitted, and we need not repeat them in this Despatch.”

2. The precise nature of the concessions cannot, however, be accurately ascertained from the papers sent, among which there is, indeed, one showing in parallel columns what, on the one hand, the company asked, and what, on the other, your Government were prepared to grant, but nothing whatever to show what was really and finally granted. The omission is not unimportant, for, according to the papers in question, the Government would seem to have promised a more liberal subsidy than the company expected or asked, the company having stipulated for only so much annually of Rs. 40,000 as might be necessary to raise their net profits in any one year to 5 per cent. on a capital of 22 lacs, whereas the Government were apparently ready to pledge themselves to the payment in full of Rs. 40,000, however large might be the company's earnings. I shall be glad to learn how the matter stands.

3. In the same papers it was stipulated on the part of Government, that they shall, at the end of ten years, be entitled to purchase the company's property “at a price not exceeding 20 per cent. of the average value of their shares during the preceding three years.” There is evidently here a clerical error. What was really meant was probably at a price not exceeding 20 per cent. above the same average value.

I have &c.

HARTINGTON.

No. 54.

DESPATCH to the GOVERNMENT OF INDIA, July 8, 1880, No. 64 (Railway).

MY LORD MARQUIS,

Page 76.

Page 65.

PARAGRAPH 1. I have had under consideration in Council your Excellency's Financial Letter No. 148, dated 11th May last, furnishing the result of your reconsideration of the Muzaffarpur-Bettia and the Darbhanga-Pipra Ghat Railway schemes, as directed, in regard to the latter work, by Lord Cranbrook's telegram of the 2nd December 1879.

2. You now state that there is, in your opinion, sufficient ground for the expectation that the profits on these lines will, when completed, be equivalent to a dividend of $4\frac{1}{2}$ per cent. on the capital outlay; and that you expect to be able to appropriate funds for their commencement out of the fixed grant of $2\frac{1}{2}$ crores for expenditure in 1880-81.

3. I understand that the whole of this work is to be provided for within the limits prescribed for productive public works; and, under the explanations now afforded, I sanction the construction of both works, the estimate of the cost of which has been raised, for the reasons stated, from Rs. 47,00,000 to Rs. 60,00,000.

I have, &c.

HARTINGTON.

No. 55.

EXTRACTS from DESPATCH to the GOVERNMENT OF INDIA, August 5, 1880, No. 259 (Financial).

44. The capital outlay on productive works is estimated at 3,312,000*l.*, or less by 252,140*l.* than in 1879-80. This amount includes, besides the annual fixed grant of 2,500,000*l.*, the sum of 182,000*l.* unexpended from the allotment in the previous year, as explained in your letter of the 25th of February, No. 81, and also 630,000*l.* estimated as the outlay on capital account for the East Indian Railway. I approve of these additions to the fixed grant. Page 72.

* * * * *

57. Again, the expenditure from borrowed money on productive works having now been fixed at a uniform rate, it is important that the borrowing for such purposes should also be kept at a corresponding average amount. The ground of limitation to 2,500,000*l.* having been that this sum was as large as could usually be borrowed in India with advantage in any one year, it could not be right to refrain from borrowing, thereby reducing the balances to an extent which would presumably render a much larger loan necessary in the following year, under less advantageous circumstances. In saying this, I do not overlook the remark in the 6th paragraph of your Letter of the 8th of June, No. 177, that your Government had "some hope" that you might avoid borrowing in 1881 also; but such a reduction of your balances would, in my opinion, have been injudicious.

* * * * *

66. I notice further, with satisfaction, that you have been able to raise four local railway debenture loans of small amount, and I request to be furnished with complete information of the manner in which the subscriptions were invited, the conditions on which the money has been subscribed, and the details of the intended open Local Debenture Loan mentioned in the last paragraph of your Letter of the 25th of February, No. 81. I have also to request an explanation of the remark therein made, that "the discouragement of these local debenture loans is a consequence of the restriction of our expenditure on the construction of productive public works." If money is subscribed for special lines, the result should apparently be the restriction of the amount which it is necessary to borrow for, and expend on, other works, not the postponement of the works for which the funds can be provided locally. Page 73.

No. 56.

LETTER from the GOVERNMENT OF INDIA, August 17, 1880, No. 263 (Financial).

MY LORD MARQUIS,

By Lord Cranbrook's Despatch No. 15, dated 27th March 1879, we were informed that Her Majesty's Government were unable to regard the Nirá canal, a work at once so costly and of so little promise in revenue, as one that it would be expedient to undertake as a protective public work under the conditions sanctioned in Lord Cranbrook's Despatch No. 62, dated 20th February 1879. Page 160.

2. We consider it incumbent on us now to forward, for the consideration of Her Majesty's Government, our subsequent correspondence with the Government of Bombay, which shows how great was the disappointment caused by Lord Cranbrook's decision to the local revenue officers and to the inhabitants of the affected tract of country, as well as to the local government. Page 159.

3. The facts with which we have now to deal are as follows: On three several recent occasions it has been necessary to employ the people on the construction of the Nirá canal, in order to relieve the local distress arising from failure of the crops, and there is no prospect of such necessity ceasing throughout the current calendar year. (Memorandum by Commissioner, Central Division, dated 12th January 1880.) The expenditure thus incurred to the end of 1879-80 was Rs. 8,10,614; and this sum must have been since somewhat increased.

4. By expending 5½ lakhs more we could complete the head works and about 35 miles of the canal, and for about another 8 lakhs we could finish the scheme as now restricted. If we do nothing, the work accomplished for the 8½ lakhs already spent may speedily become almost worthless, and there will be every prospect of a repetition of such infructuous expenditure in that drought-stricken country, at short intervals, while we must expect the condition of the inhabitants to deteriorate rapidly.

5. Inasmuch as there will not, this year, be any surplus of revenue over our ordinary expenditure, we fear that we are precluded from renewing our application to be allowed to carry on the work as a protective work, which it essentially is. For the same reason, we hesitate to make a special grant of imperial funds for the work, as part of our ordinary expenditure on public works. To do this under existing circumstances would be practically equivalent to borrowing the money.

6. On the other hand, the funds at present available for expenditure on ordinary public works in the Bombay Presidency are so limited that the local government cannot possibly undertake the work as an ordinary work.

7. There remains only the alternative of treating it as a productive work. As a general rule, it would not be admissible for us to construct a work partly from our ordinary revenues, and then allot a grant for the residue under the excluded head 38, productive public works, upon the ground that such residual expenditure would, in itself, be reproductive; and we have no intention of inviting your Lordship to countenance our habitual resort to any such procedure. But, in the present case, we find ourselves in the dilemma which we have already described. To do nothing is to sacrifice the 8½ lakhs already spent, and to leave the tract affected to a progressive deterioration; whereas, by providing the moderate sum of 5½ lakhs, we can utilise the expenditure already incurred, and, to some extent, protect the local population from much suffering, and the State against further costly demands for probably ineffectual periodical intervention on their behalf.

8. We entertain no doubt at all that the outlay of this sum of 5½ lakhs, *per se*, would be as thoroughly productive within the meaning of the conditions applicable to the construction of productive public works, as it would be, undoubtedly, beneficial to a part of the country that sorely needs help; and, under all the difficulties of the case, it seems to us that to allot this sum, as a special case, from grant 38, productive public works, would not contravene the principles of these rules, and would be otherwise expedient. The precedent is little likely to operate often, as we may reasonably expect that, ordinarily, we should be in a position to complete such a work as a protective work. Indeed, we trust that, whenever the conditions upon which protective works may be constructed are settled, some provision will be made to prevent the total cessation of such works merely in consequence of a temporary excess in our whole expenditure over our whole revenue, by reason of some fiscal stress arising from such a cause as war or famine.

9. We, therefore, trust that your Lordship will permit us to complete the head works and first 35 miles of the Nirā canal, by the expenditure of 5½ lakhs from the grant for productive public works. We can spare the money this year. If your Lordship accepts this recommendation, we shall be glad to receive your assent by telegram.

We have, &c.

RIPON.

F. P. HAINES.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

J. GIBBS.

C. U. AITCHISON.

No. 57.

DESPATCH to the GOVERNMENT OF INDIA, August 26, 1880, No. 90 (Railway).

MY LORD MARQUIS,

Page 77.

PARAGRAPH 1. I have had under consideration in Council your Railway Despatch No. 170, dated the 1st June, in which you seek my confirmation to the altered terms which you have consented to introduce into the agreement with the Assam Light Railway Company, for the construction of a railway between Dibrugarh and Sadiya.

Page 51.

2. The original agreement, which received the approval of my predecessor in his Despatch of the 28th August 1879, provided that a guarantee at the rate of 5 per cent. per annum on an estimated capital of 16 lakhs, and no more, should be granted for five years.

3. The proposal of the Chief Commissioner of Assam, which is now recommended by your Excellency, is that the guarantee should be extended from 5 to 20 years; also that the subsidy should be allowed to apply rateably to portions of the line as opened; and that the small branch lines to Negagootee and Hopewell may be suspended.

4. The two latter modifications are, in the opinion of the Chief Commissioner, rather advantageous than otherwise; and the only comment I have to make on them is that I understand the arrangement with respect to the guarantee to be that the proportionate subsidy payable on a particular section of the line be due on the opening of such portion to the public, and not from the date of its commencement, as proposed in the letter from the secretary to the railway company of the 16th January last.

5. With regard to the extension of the term from 5 to 20 years, I regret that so important a concession has been considered necessary, in order to secure the confidence of the public. A guarantee for this length of time is very different to one granted for a period during which the undertaking is passing through its first stage of development. Trusting, however, that the scheme in question has in it elements of success which will keep down the demand upon the provincial treasury, and probably before long relieve it altogether of the payment of any subsidy, and feeling the importance of making a beginning with railway enterprise in the province, I confirm your proceedings; but I must request that no similar arrangements may be made in future without first submitting them for my consideration.

6. I have to add that the terms of the contract with the company should receive the most careful consideration before any formal agreement is entered into. I do not observe that any provision has been proposed in either of the draft agreements, for repaying to the Government out of the receipts of the railway whatever may be advanced under the guarantee, or for deducting whatever may remain unpaid from the sum due to the company if the line were purchased under Clause XIV. Conditions to this effect ought to be included in the contract, which should also clearly provide for the deduction from the subsidy of any payment made by the Government under Clause 2, for repairs undertaken at the cost of the company.

7. The concluding part of Clause XIV. appears to me to be uncalled for. There is no necessity for pledging the Government to keep up and work the railway as a State undertaking, should they purchase it. Government should be left free to act as might be considered best when the occasion arises. This part of the clause should, therefore, be left out.

I have, &c.

HARTINGTON.

No. 58.

LETTER from the GOVERNMENT OF INDIA, August 31, 1880, No. 281 (Financial).

MY LORD MARQUIS,

REFERRING to the several instructions conveyed to us in Lord Cranbrook's Despatch No. 420, dated the 23rd October 1879, forwarding the Report of the Select Committee of the House of Commons on East India public works, we have the honour to offer the following remarks:—

2. Paragraph 6.—Under instructions from Her Majesty's Government, the registered debt of India is now divided into the two categories of "debt incurred for the construction of productive public works" and "debt incurred for general purposes." Accordingly, in the accounts of each year, an amount equal to the whole recorded expenditure during the year, under the head of productive public works, is transferred from the general registered debt to the category of "debt incurred for the construction of productive public works." We presume that these arrangements sufficiently meet the wishes of the Select Committee, and that nothing more is required.

3. We believe that there is now no discrepancy as regards productive public works between the finance and revenue accounts and those of the Public Works Department.

4. In the Appendix to our financial statement will be found full particulars of the earnings, working expenses, and net revenue, of each productive public work, and of

the capital expenditure upon it. The general result is abstracted in the manner prescribed by Her Majesty's Government, in the finance and revenue accounts as presented to Parliament, and in the second abstract attached to our financial statement.

5. Paragraph 7.—We are not sure whether you desire any more detailed review of the financial results of these works than is contained in our financial statement. If so, such a review can be prepared; but, if it is to extend to each work, it must be voluminous, and its preparation laborious and costly.

6. We believe it to be, for the most part, impossible to make any useful or accurate estimate of the value of the works executed by the native administrations which preceded the accession of the British Government. But there is no difficulty in distinguishing such works from the rest, and this shall be done in future.

7. Paragraph 8.—We are constantly considering how to afford further opportunities to residents in the interior of the country to subscribe to our loans. On this subject we ask a reference to paragraph 17 of our Despatch forwarding the financial statement, No. 81, dated the 25th February 1880.

The other matters dealt with in this paragraph are receiving our consideration.

8. Paragraph 9.—It would be a laborious and troublesome task to pick out from the accounts of the last 21 years all the money spent on the improvement of harbours and ports; but we will undertake it, if your Lordship so desire. By "expended from borrowed money" here, is meant, we presume, expended from the grant for productive public works, although, happily, the whole of that grant is, by no means "from borrowed money."

The only expenditure upon harbour works which has been recorded against the grant for productive public works is the expenditure, under the orders of Her Majesty's Government, upon the Madras Harbour Works. The rest of the expenditure on harbours has been supplied, for the most part, from the port funds; and to compile the return desired, we should have to consult the records of the several port trusts. We doubt whether the result would be worth the labour involved in such a compilation; and we shall, accordingly, await further instructions.

9. Paragraph 10.—Concerning loans to local authorities, we ask reference to our accounts and finance proceedings for November 1879, No. 918, which contain the rules which we have made under the Local Authorities Loan Act, 1879. Advances are not made to such authorities except on the security of revenue independently derived from local sources, fully adequate to cover the interest upon, and repayment of, the capital sums advanced. We invite attention also to paragraph 30 of the financial statement for 1879-80. Such loans are now rarely made at all.

We have, &c.

RIPON.

F. P. HAINES.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

J. GIBBS.

C. U. AITCHISON.

No. 59.

DESPATCH to the GOVERNMENT OF INDIA, September 2, 1880, No. 299 (Financial).

MY LORD MARQUIS,

Page 77.

PARAGRAPH 1. I have considered in Council your predecessor's Letter, dated the 8th of June, No. 184, forwarding a Minute by Major-General Fraser, R.E., describing the chief railways, works of irrigation, and telegraphs, under construction, or projected for early construction, in India.

2. I have read General Fraser's note with great interest, and doubt not that it will prove valuable as a guide to your Government in selecting the works which may be chosen with most advantage for early construction from the funds that may become available.

3. I find it difficult, however, to accord the approval of Her Majesty's Government to the programme which he has sketched out, comprising as it does a series of works which your Government are not at present prepared to recommend for sanction, and nearly half of which are included by him as protective works, a class in regard to which the conditions of their construction have not yet been determined.

4. When your Excellency is in a position to inform me how far you concur in the forecast put before you by General Fraser, I shall be glad to learn your views on the question.

5. With reference to the remark that you will be free, under such restrictions as may be prescribed, "to use the famine insurance surplus" on the construction of protective works, I would remind your Excellency that permission has been given to expend only one half of the sum of 1,500,000*l.*, required to be annually devoted to the purposes of famine insurance, upon protective works, and that the remainder must, under existing orders, be held available for the reduction of debt in England.

I have, &c.

HARTINGTON.

No. 60.

LETTER from the GOVERNMENT OF INDIA, October 5, 1880, No. 331 (Financial).

MY LORD MARQUIS,

IN order to keep our expenditure on the construction of productive public works within the limit assigned by Her Majesty's Government, namely 2½ crores a year plus any unspent portion of the grant for the preceding year, without the waste and loss involved in delaying the completion of works in hand, it will be necessary for us carefully to restrict the number of works, which we undertake simultaneously, and we shall keep this in mind in future. But the final determination of Her Majesty's Government to restrict our expenditure of this class as here recited found us with a number of productive works approaching completion, which it is most important to finish as soon as possible, in order that they may begin to earn revenue.

2. Our Director General of Railways has now reported the following cases of this kind :—

- (1.) An addition of two lakhs to the grant for expenditure in 1880–81 on the Nímach-Nasírábád Railway will enable him to open, this year, 34 miles from Nímach to Chitor and 25 miles from Nasírábád to Barhal, leaving only 75 miles to finish this work next year.

It is absolutely necessary to push on this line, in order to cheapen salt to the population affected by the recent salt conventions in Rájputáná.

- (2.) The Western Rájputáná line will, it is hoped, be opened throughout by the 1st January. An addition of 4½ lakhs to the grant for this line is urgently needed to complete the bridges, and purchase fuel and stores to enable us to begin working it.

- (3.) The Government of the North-western Provinces expects to open the Cawnpore-Farrukhábád Railway on an early date, if we can add three lakhs to the sum allotted for this line.

3. Including sundry other such grants, the Director General has urgently applied for an addition of 15 lakhs in all to the whole grant for 1880–81 under 38, Productive Public Works.

4. A portion of this sum may be covered by savings on other works; and the departmental officers consider it, in particular, probable that the whole of the 690,000*l.* appropriated for expenditure from the Home Treasury will not be actually spent. Under ordinary circumstances we should not be justified in authorising the desired additional expenditure on such hypothetical grounds; but Her Majesty's Government has manifested willingness, by reasonable relaxations, to facilitate the introduction of the system of strictly limited assignments for the construction of productive public works. We have ventured, therefore, for the reasons stated in the first paragraph, to place the additional 15 lakhs, so urgently needed, at the immediate disposal of the Public Works Department. If it should turn out that the savings at the Home Treasury, or on other productive works in India, do not counterbalance this 15 lakhs, the excess will be deducted from the fixed grant of 2½ crores for 1881–82.

5. We trust that your Lordship will approve our proceedings in this matter.

We have, &c.

RIPON.

F. P. HAINES.

J. STRACHEY.

W. STOKES.

J. GIBBS.

D. M. STEWART.

C. U. AITCHISON.

No. 61.

EXTRACT from Letter from the GOVERNMENT OF INDIA, November 2, 1880, No. 359 (Financial).

Page 73.

6. With reference to the remarks in our Despatch No. 81, dated the 25th February, that "the discouragement of these local debenture loans is a consequence of the restriction of our expenditure on construction of productive public works, which we especially regret," we beg to explain that the chief inducement to the local governments to raise, and to local communities to subscribe, such loans was that they would thus obtain funds for expenditure on productive works which they would not otherwise receive, in addition to their share of the $2\frac{1}{2}$ crores to be spent yearly on such works. Inasmuch as, under the orders of Her Majesty's Government, the amount raised by means of local debenture loans merges in the maximum allotment of $2\frac{1}{2}$ crores, it follows that a local government will gain nothing whatever by raising a local debenture loan, and a local community nothing by subscribing to it. The result of raising a local debenture loan at present is only that a rather higher rate of interest is necessary, and so a greater burden is imposed upon the province. The funds at its disposal are not increased at all. It would be impossible, without starving the provinces which most need development, to allow to any province a larger share of the $2\frac{1}{2}$ crores merely because it raises a local debenture loan.

No. 62.

LETTER from the GOVERNMENT OF INDIA, November 2, 1880, No. 361 (Financial).

MY LORD MARQUIS,

OWING to the fact that the outlay on several projects now classed as productive public works was, in former years, treated as ordinary expenditure, the profit and loss accounts of these works, as now recorded at the foot of Abstract II., appended to our annual financial statements, are incorrect.

2. On the revenue side of these accounts the whole of the revenue due to these works is recorded; but on the expenditure side interest is shown only on the outlay which has been recorded under 38, Productive Public Works, and not upon the remainder. In future we propose, with your Lordship's approval, to charge in these accounts interest upon the whole capital cost of these works, whether it has been charged under the head 38, Productive Public Works, or not.

3. On the other hand, interest is now charged in these accounts on all outlay which has been recorded under 38, Productive Public Works, even upon works eventually excluded from the category of such works. The infructuous capital on which interest is thus charged is—

	Rs.
Irrigation	24,34,110
Railways	5,51,975

4. In future we propose to omit the interest upon these amounts.

5. We append a series of statements showing the distribution of the capital outlay between 38, Productive Public Works, and that incurred as ordinary expenditure, and the amounts that will appear for 1879–80 and 1880–81 under head 1, "Interest on Debt," in the profit and loss accounts, at the foot of Abstract II., if the procedure we now propose were in operation.

6. In these statements we have charged interest on the outlay on the Salt branches of the Rājputānā and Punjāb Northern State Railways, and the Jhelum-Rāwal Pindi section of the Punjāb Northern State Railway. It would be very inconvenient to keep separate accounts of such subsidiary works.

We have, &c.

J. STRACHEY.
F. P. HAINES.
W. STOKES.
J. GIBBS.
C. U. AITCHISON.

LETTER from the GOVERNMENT OF INDIA, November 2, 1880, No. 159 (Railway).

MY LORD MARQUIS,

IN accordance with the policy enunciated in our Railway Despatch No. 266, dated 18th October 1879, which was approved of by Lord Cranbrook, in his Lordship's Despatch No. 13, dated 5th February 1880, we directed that the original sanctions for outlay on capital account of the under-noted State railways should be finally closed on the 31st March last:—

RAILWAYS.	Length.	Gauge.	Estimated Cost.	Expenditure.	Saving.	Excess.	Expenditure per Mile.
	Miles.		Rs.	Rs.	Rs.	Rs.	Rs.
Indus Valley - - -	501	Broad.	6,63,35,111	5,88,15,447	75,19,664	—	1,17,396.
Punjab Northern, Lahore to Jhelum Section.	103	"	2,56,22,362	2,58,70,730	—	2,48,368	2,51,172.
Rajputana - - -	427½	Metre.	3,16,19,051	3,11,41,963	4,77,088	—	72,889
Northern Bengal - - -	242½	"	1,94,52,339	1,96,47,970	—	1,95,631	81,023
Tirhut - - -	85	"	60,00,000	52,14,379	7,85,621	—	61,346
Holkar - - -	86	"	1,24,61,846	1,23,44,573	1,17,273	—	1,43,542
Sindhia-Nimach, Indore to Ratlam Section.	85½	"	79,22,098	78,93,281	28,867	—	92,318
Rangoon and Irawadi Valley -	169	"	1,23,72,339	1,22,15,088	1,57,251	—	72,279
Total - - -	1,699½		18,17,85,146	17,31,43,381	86,41,765	—	1,01,894

2. We append hereto, for your Lordship's information, a statement showing the total outlay incurred up to the date of closing the estimates compared with the sanctions for each project.

3. The programme laid down for outlay on these lines during the year 1880-81, in the Despatch above quoted, has been fairly adhered to. We now estimate that the outlay finally debited to the capital account of these railways in the current year will be as follows:—

	Lakhs.
Indus Valley - - -	20¼
Punjab Northern, Lahore to Jhelum Section - - -	2
Rajputana - - -	14½
Northern Bengal - - -	6
Tirhut - - -	13¼
Holkar - - -	2
Sindhia-Nimach, Indore to Ratlam Section - - -	1¼
Rangoon and Irawadi Valley - - -	1½

In our Despatch No. 94, P.W., dated 5th October 1880, we advised your Lordship of the grants we propose to assign to these lines in 1881-82.

We have, &c.

JOHN STRACHEY.
F. P. HAINES.
W. STOKES.
J. GIBBS.
C. U. AITCHISON.

LETTER from the GOVERNMENT OF INDIA, November 16, 1880, No. 170 (Railway).

MY LORD MARQUIS,

WE have the honour to acknowledge the receipt of your Lordship's telegram of the 11th instant. As soon as the members of Government reassemble in Calcutta, the proposal that has been made to your Lordship by the Messrs. Rothschild will be taken into consideration. In the meanwhile it is most desirable that we should not be committed by the acceptance of any offers, even of the favourable character alluded to by your Lordship, to the construction of railways in Central Bengal. We must specially ask your Lordship to avoid making any concession in regard to free grants of land, that might entail on us the expense of providing ground for a new station with approaches in the city of Calcutta. The papers relating to these lines are attached, together with a map. The cost of land for a railway leading from Dum Dum or

Chitpore to Jessor and Khulna, with a branch from Bangaon to Ranaghat to join the Eastern Bengal Railway, is estimated at five lakhs of rupees.

We have, &c.

JOHN STRACHEY.
C. U. FITCHISON.

No. 65.

DESPATCH to the GOVERNMENT OF INDIA, November 18, 1880, No. 384 (Financial).

MY LORD MARQUIS,

Page 89. PARAGRAPH 1. I have considered in Council your Financial Letter, dated the 17th August last, No. 263, relative to the completion of the head works and first 35 miles of the Nira Canal.

Page 160. 2. Your Government observe that the decision of Her Majesty's Government not to allow the prosecution of this work as a protective public work, as communicated in Lord Cranbrook's Public Works Despatch, dated the 27th March 1879, No. 15, was received with much disappointment by the Bombay Government, and that on three recent occasions it has been necessary to employ the people on the construction of the Nira Canal, in order to relieve local distress arising from failure of crops, and that there is no prospect of such necessity ceasing throughout the current calendar year. You state that the expenditure thus incurred to the end of 1879-80 was Rs. 8,10,614, and that, by expending $5\frac{1}{4}$ lacs more, you could complete the head works and about 35 miles of the canal, and for about another eight lacs could finish the scheme as now restricted.

3. Inasmuch as there will not this year be any surplus of revenue over ordinary expenditure, you fear that you are precluded from renewing your application to be allowed to carry on the work as a protective work, and, for the same reason, hesitate to make a special grant of imperial funds for the work as part of ordinary expenditure on public works, as to do this, under existing circumstances, would be practically equivalent to borrowing the money.

4. You further state that the funds at present available for expenditure on ordinary public works in the Bombay Presidency are so limited that the local government cannot possibly undertake the work as an ordinary work, and that there remains only the alternative of treating it as a productive work.

5. You admit that, as a general rule, it would not be admissible to construct a work partly from ordinary revenues, and then allot a grant for the residue under the excluded head 38, Productive Public Works, upon the ground that such residual expenditure would in itself be reproductive; but, as you entertain no doubt at all that the outlay of this sum of $5\frac{1}{4}$ lacs *per se* would be as thoroughly productive within the meaning of the conditions applicable to the construction of productive public works as it would be, undoubtedly, beneficial to a part of the country that sorely needs help, it seems to you that to allot this sum as a special case, from grant 38, Productive Public Works, would not contravene the principles of these rules, and would be otherwise expedient, and you therefore trust that Her Majesty's Government will permit you to complete the head works and first 35 miles of the Nira Canal by the expenditure of $5\frac{1}{4}$ lacs from the grant for productive public works.

6. In the telegram* noted in the margin, your Government were informed that the completion of the head works and first 35 miles of the Nira Canal was sanctioned, but not as a productive public work, and that the outlay must be provided from ordinary revenue.

* Your Public Works, No. 263, sanction Nira Canal head works and first section on your urgent request, but not as a productive public work. Outlay must be provided from ordinary revenue, whether surplus or not. Despatch follows.

7. The procedure recommended by you, under which funds for the contemplated expenditure would, as a special case, be provided from a grant under the head of productive public works, is admitted by your Government to be wrong in principle, and one which could not as a rule be allowed. In that opinion I concur, and see no grounds for sanctioning the exceptional course which you have suggested; but, as your Government and that of Bombay are of opinion that the completion of the head works of the Nira Canal, and the first section, are urgently required, the necessary funds must be provided out of ordinary revenue.

8. It does not appear to me that this course is, as you state, tantamount to borrowing the money. This will have to be supplied in the first instance from the cash balances,

and the deficiency in those balances thus caused should be made up next year, by a corresponding reduction of your ordinary expenditure, or by providing additional revenue for the purpose.

I have, &c.
HARTINGTON.

No. 66.

LETTER from the GOVERNMENT OF INDIA, November 23, 1880, No. 393 (Financial).

MY LORD MARQUIS,

IN 1876, Her Majesty's Government sanctioned* the construction, as a pro-

* Despatch No. 9P.-W., dated 3rd February 1876. ductive public work, of a canal from the Swát river, at an estimated cost, including indirect charges, of Rs. 23,13,107. The real estimated cost was only Rs. 19,45,130,†

† Cash expenditure	-	-	Rs.	16,67,848
			Rs.	
Leave and pensions	-		69,478	
Interest during construction	-		2,07,804	
				2,77,282
Total	-	-		19,45,130

as will be seen by a reference to the 5th paragraph of our Despatch No. 116 P.W., dated 27th October 1875. We regret to have to report that even the larger sum is now found to be quite insufficient for the execution of the work.

2. The history of this project, and the causes of its increased cost, are described in

† Works	-	-	Rs.	26,24,132
Establishment	-	-		7,63,753
Tools and plant	-	-		1,57,925
Total	-	-		35,45,810

the accompanying note by Major-General J. Crofton, R.E., Inspector General of Irrigation. The revised estimate now submitted amounts to Rs. 35,45,810† for direct charges only. The indirect charges are estimated at Rs. 7,38,425, so that the total cost of this canal is now expected to

amount to Rs. 42,84,235.

3. Making all due allowance for the various causes assigned for the enormous rise in the estimates, it is not creditable to those who made the original calculations that they should prove to have been as much as 112 per cent. in error for direct charges alone, and that the net profits should have been over-estimated by more than 24 per cent. The Inspector-General thinks it possible that the actual cost of the work may prove to be less, and the revenue greater, than the Government of the Panjáb now expects; but we do not venture to assume this, and cannot accept a higher estimate of net revenue from the work than Rs. 1,39,500, or 3.9 per cent. on the capital outlay of Rs. 42,84,235 now estimated.

4. Nevertheless, the strong political reasons which first led to the contemplation of this work, and the large expenditure already incurred upon it, make it absolutely necessary that it should be completed as a productive public work, for, if it is left to be finished as ordinary resources permit, its completion would be indefinitely delayed, and its cost indefinitely enhanced.

5. If such an error as this in the estimate upon which the construction of a productive public work had been sanctioned were discovered before much money had been spent on the work, we should feel bound to consider whether the sanction should not be withdrawn; but later on, this course cannot be followed without great loss and inconvenience. It seems to us, in short, that the productive status of a work cannot conveniently be altered after its construction has progressed as much as in this case. Nearly 12 lakhs of rupees have been expended on the Swát River Canal, and, if the work were now to be relegated to the chances of completion as funds can be found for it in the ordinary way, the whole of our past expenditure would be, for an indefinite time, unproductive.

6. We, therefore, recommend the completion of this work as a productive public work according to the original design, although we freely admit that we could not have advocated its construction as a productive public work if the present estimate had been before us at first. The occurrence of this case will, we hope, make us even more careful than we now are about admitting a work to the productive category. But, take what precautions we may, we must be prepared to find our anticipations occasionally disappointed. We must set against such occasional disappointments the instances which will, we hope, more often occur, in which the results will be better

than our expectations. However great our occasional disappointments may be, we could seldom, without most serious administrative embarrassment, either abandon or complete from our ordinary resources a work undertaken only on the assumption that it would be constructed as a productive work.

7. In anticipation of the sanction of Her Majesty's Government, we have authorised the continued prosecution of the Swat River Canal as a productive public work, on the estimate now submitted.

We have, &c.

J. STRACHEY.

C. U. AITCHISON.

No. 67.

DESPATCH to the GOVERNMENT OF INDIA, November 30, 1880, No. 388 (Financial).

MY LORD MARQUIS,

Page 93.

PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 5th of October, No. 331, stating that, with the view of finishing as soon as possible the Nimach-Nasirabad Railway, the Western Rajputana line, the railway from Cawnpore to Farrukhabad, and some other lines, you have placed at the immediate disposal of the Public Works Department an additional sum of 15 lacs, beyond the grant made for productive works in 1880-81, on the understanding that, if the amount is not covered by savings on other works, or in the expenditure from the Home Treasury, the excess will be deducted from the fixed grant of $2\frac{1}{2}$ crores for 1881-82.

2. I entirely concur in the importance attached by your Government to the completion of works in hand, and in the necessity for care in restricting the number of works to be simultaneously undertaken; and, in the actual circumstances, with the view of avoiding, as far as possible, loss from the reduction of the outlay on productive works, I sanction the proceedings reported.

3. The expenditure on State railways from the Home Treasury this year is not now expected to exceed 550,000L., instead of 606,000L., as previously estimated.

I have, &c.

HARTINGTON.

No. 68.

LETTER from the GOVERNMENT OF INDIA, December 6, 1880, No. 405 (Financial).

MY LORD MARQUIS,

Page 72.

IN Lord Cranbrook's Financial Despatch No. 54, dated the 19th February 1880, sanction was given to the whole of the subsequent capital expenditure on the Jhelum-Rawal Pindi section of the Punjab Northern State Railway being recorded as an ordinary charge under the head "32, Railways." The outlay on this section charged to "38, Productive Public Works," to the end of 1879-80, amounted to Rs. 66,14,518.

2. In our Railway Despatch No. 159, dated 2nd November 1880, we reported to your Lordship that the original sanction of Rs. 2,70,00,000 for the Lahore-Jhelum section, the cost of which has been recorded under "38, Productive Public Works," had been closed on the 31st March, the outlay up to that date having amounted to Rs. 2,58,70,730.

3. The railway is now open to Rawal Pindi, and is managed by one staff of officers. Under these circumstances we find it inconvenient to record the current capital expenditure on one portion of the line under "38, Productive Public Works," and that on another portion under "32, Railways."

4. The capital expenditure on the Lahore-Jhelum section this year, except for the rolling stock expected from England, or to be transferred from the Dhond and Manmad Railway, will not be heavy, and next year it is estimated that Rs. 1,00,000 will meet all requirements. We have accordingly decided to record the whole of the expenditure on this section from the commencement of this official year, in the same

manner as the outlay on the Jhelum-Rawal Pindi section, namely, under "32, Railways." We trust that this course will receive your Lordship's approval.

We have, &c.

RIPON.
F. P. HAINES.
J. STRACHEY.
W. STOKES.
J. GIBBS.
D. M. STEWART.
C. U. AITCHISON.

No. 69.

DESPATCH to the GOVERNMENT OF INDIA, January 6, 1881, No. 1 (Financial).

MY LORD MARQUIS,

PARAGRAPH 1. The principles which are to guide the expenditure on productive public works in India have formed the subject of frequent correspondence * between

* *Vide, inter alia*, Financial Despatches from the Secretary of State:—

Page 28.—No. 267, of 31st July 1878.
" 156.—" 62, of 20th February 1879.
" 33.—" 105, of 27th March 1879.
" 60.—" 420, of 23rd October 1879.
" 62.—" 444, of 13th November 1879.
" 65.—" 485, of 11th December 1879.

my predecessors and the Government of India during the last few years. It is unnecessary that I should dwell on the facts and arguments which have led to the adoption of those principles. It will be sufficient for my present purpose if I indicate my concurrence in the view expressed by the Select Committee of the House of Commons in 1879, to the effect that the expenditure upon railways and irrigation has, "upon the whole, been beneficial to India, and that, although considerable sums have been wasted and certain profitless schemes undertaken, the policy of continuing to borrow for productive public works may, within certain limits and restrictions, be continued." I am of opinion, however, that at the present moment, when some important changes have recently taken place in the composition of your Excellency's Council, it is both desirable and opportune to resume in one Despatch the nature of those limits and restrictions, subject to which productive public works' expenditure may be continued, and at the same time to give as much precision as the circumstances of the case admit to any instructions which may appear, from a perusal of former correspondence, to be open to doubt.

2. I wish, however, in the first instance, to dwell briefly on the expediency of constructing, through the agency of private enterprise, some of the works which, under the existing system, are undertaken by the State. It may be a question whether, in the case of a canal used wholly for navigation, an attempt should not be made to ensure its construction by private enterprise; but when, as is usually the case, canals are made either wholly for irrigation purposes, or for irrigation and navigation combined, their construction must, as an almost invariable rule, devolve upon the State. In the case of railways, I do not doubt that your Excellency will bear constantly in mind the importance, whenever possible, of ensuring their construction by private capital, either local or European. It is true that up to the present time no companies have been found willing to undertake the construction of railways without a Government guarantee; but I would nevertheless strongly urge upon your Excellency that, when any reasonable prospect of success presents itself, an endeavour should be made to encourage the raising of capital through private agency on the exclusive security of the success of the undertaking. Any step in this direction will meet with my most cordial support and co-operation. In the event of its becoming apparent that the due execution of this policy is impracticable, it may become desirable to consider whether a modified system of guarantee might not advantageously be adopted. By a modified system, I mean one so restricted in respect to time and to the rate of interest guaranteed as to give the subscribers a real interest in the efficient and economical administration of the railway.

3. Turning to works undertaken by the State, I find that the main principles laid down by my predecessors for the guidance of the Government of India are:—

1st. That the annual expenditure on productive public works from all sources, that is to say, whether from borrowed money or surplus revenues, should be for the present restricted to the fixed sum of 2,500,000*.

* No. 420 (Financial) of 23rd October 1879, paragraph 5. See Secretary of State's Despatch No. 444 (Financial) of 13th November 1879, paragraph 10.

2nd. That, for the inclusion of any work in the productive class, it is necessary that there should be a prospect of its repaying within a reasonable time the whole of the interest incurred on the money expended in its construction, though it is immaterial whether the interest which accrued during the process of construction be treated as a charge against income of future years, or be added to the capital on which interest is paid.*

Each of these principles calls for some special remarks.

4. The reasons for fixing the present limit of expenditure were explained by the late Under Secretary of State for India (Mr. Stanhope) in the House of Commons on 22nd May 1879, to be, that as it had been decided that money required for public works should be borrowed in India and not in England, the amount should be limited to that which the Government of India could fairly be expected to borrow in ordinary years without undue disturbance of the money market in India. As regards the expenditure of surplus revenue, there appears to be no reason in principle why, in the event of a *bond fide* surplus of receipts over expenditure being realised in any one year, and not otherwise appropriated, any such surplus should not, under certain conditions to which I will allude presently, be added in the following year to the amount borrowed for expenditure on productive public works. It will be, in the first instance, for your Excellency to judge whether it will be desirable to devote surplus to this purpose, or whether it will be preferable to undertake the construction of works which, from their unremunerative character, cannot be classed as productive, or to apply the funds at your disposal to the remission or re-adjustment of taxation, or to the reduction of sterling debt, or to the diminution of the amount borrowed in India for productive public works. In deciding on the adoption of one or more of these alternative courses, much will depend on the circumstances of the moment, and I do not wish to lay down any very precise rules as to the proportions in which surplus revenue should be applied to these several objects. I will merely observe that, equally with my predecessors, I attach great importance to the reduction of sterling debt in years of prosperity; but, in the event of any appropriation of surplus revenue to productive public works expenditure, I must impress on you a strict adherence to the conditions under which the surplus of any one year may be added to the amount borrowed in the succeeding year for productive public works indicated by the Select Committee of the House of Commons, viz. :—

1stly. That the general debt of India should be relieved, and the productive public works debt increased, by the amount of the surplus so added.

2ndly. That care should be taken that the permanent establishments be not increased so as to prove burdensome in years when no surplus of preceding years is available.

5. Unless such care be taken, in years when surplus funds are available, the Government may, in a subsequent year, when no such funds are available, find itself obliged either to borrow more than $2\frac{1}{2}$ millions, or to postpone the completion of works partially constructed, and, therefore, very possibly for the time wholly unproductive. The adoption of the first of these alternatives would infringe the principle laid down by successive Secretaries of State and by the House of Commons Committee; the adoption of the latter would be obviously wasteful and objectionable.

6. One further point in connexion with this branch of the subject is to be noted. The limit of $2\frac{1}{2}$ millions, as a limit of expenditure and not of borrowing, applies to average annual expenditure; that is to say, the unspent balance of any one year may be re-allotted and added to the $2\frac{1}{2}$ millions of the succeeding year, if there be good ground for supposing that the whole sum can be profitably spent. On this point I need only direct your attention to the remarks contained in paragraph 7 of my predecessor's Despatch No. 485 (Financial) of 11th December 1879.

7. Turning to the second of the principles enumerated in the third paragraph of this Despatch, which prohibits the inclusion of any works in the productive class unless they are likely to prove remunerative within a reasonable time, I think it desirable to define with somewhat greater precision than has as yet been attempted the interpretation which I request may be given to it.

I will deal separately with railways and works of irrigation.

8. As regards railways, I have already alluded to the importance of securing, if possible, their construction through the agency of private enterprise; and I would observe that the refusal of private capitalists to undertake the construction of a railway, though not an absolutely conclusive proof of its unremunerative character, affords *prima facie*

grounds for supposing that it will be undesirable for the State to take the matter in hand. The question of the adoption or rejection of a proposal to construct a railway should, in fact, under ordinary circumstances, be treated on commercial principles. If there are fair grounds for supposing that a private individual or company, content with a moderate return for their money, would invest in the undertaking, the scheme may be adopted; if not, it is questionable whether it is desirable for the State to undertake it. It can scarcely be doubted that no private individual or company would deliberately invest in a railway undertaking which was not calculated to give a return of 4 or 5 per cent. on the capital within at least two or three years of the opening of the line, with the prospect of a considerably larger return in future years. The case of a Government is, no doubt, somewhat different from that of a company, and still more so from that of an individual capitalist, and, therefore, in the case of the first a longer interval of time may probably be allowed to elapse between the commencement of an undertaking and the period when it is expected to become remunerative. In considering, therefore, the case of railways, the construction which I request may be given to the expression that they will probably be remunerative "within a reasonable time" is this, that they may fairly be estimated to pay, within a maximum limit of five years from the date of the line being opened for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions.

9. In the case of irrigation canals greater latitude may be given. The period within which they should be calculated to pay 4 per cent. on the capital invested, including the before-mentioned additions to the actual outlay, may be extended to 10 years from the date of completion of the work.

10. These, therefore, are the principles to which I request your Excellency will adhere in considering, under ordinary circumstances, the construction of new productive public works. Such works as are already included in the productive class may, within the limit of expenditure already sanctioned, be concluded, even though the restrictions now imposed would in some cases prohibit their construction with borrowed money. I do not wish it to be understood that these principles are immutable. I am aware that, had they been always followed, India would not now possess many of those public works which, in spite of any occasional shortcomings, have conferred immense benefits on the country. If they are adopted now, it is because those public works which were most urgently needed have already been constructed, and because, in the words of my predecessor,* "a rate of expenditure from borrowed money which might have been proper and desirable a few years ago may, from the altered condition of the finances, become impracticable or dangerous." Unquestionably, there still remain many works which, considered wholly on their own merits, it might be desirable to undertake, and the completion of which, by reason of the limits and restrictions now imposed, it will be necessary to postpone. I recognise the justice of the principle laid down by the Select Committee of the House of Commons, that "the amount to be annually expended upon productive public works should mainly depend upon the financial condition of India," and, therefore, that the limit of $2\frac{1}{2}$ millions now fixed is only temporary. I shall be glad if at some future time the condition of the finances is such as to justify your Excellency's Government in recommending, and Her Majesty's Government in sanctioning, an extension of that limit. Should your Excellency at any time think it desirable to raise again the question of principle, I shall be prepared to give my consideration to any observations which your Excellency may think fit to make. But I must remark that, so long as the normal military expenditure of the Government of India remains uncertain, pending the final settlement of affairs in Afghanistan,—the question of taxation in India remains in its present unsettled condition,—and many other parts of the fiscal system are manifestly in a state of transition,—I am not of opinion that the moment will be opportune for effecting any modifications in the principles enunciated in this Despatch. Until they are modified, I request that, in coming to a conclusion on any particular scheme which may be presented to you, your Excellency will consider, not the propriety of these principles themselves, but merely whether, in the application of them, the facts of the particular case justify its inclusion in the class of productive public works.

11. I have so far dealt with the case of productive works constructed in ordinary times, that is to say, not under the pressure of war, famine, or other extraordinary circumstances.

The case of what are termed protective works is very simple. These are works which, although not directly remunerative to the extent which would justify their inclusion in

the class of productive works, are calculated to guard against a probable future expenditure in relief of the population. In respect to such works I need only re-affirm the principle laid down by my predecessor,* that they should, in ordinary times, be constructed from revenue, and not from borrowed money. It appears to me that the appropriation of 750,000*l.* out of the 1,500,000*l.* of insurance taxation for famine purposes will be sufficient for this purpose.

There remains the case of works undertaken for the relief of actual famine, or such, as in the case of the recently constructed frontier railways, as form part of the increased expenditure consequent on a war. Successive Governments have recognised the paramount necessity of saving life when famine has arisen. The expenditure on a railway undertaken in time of war for strategical purposes has to be in part considered on other than purely financial grounds. It is obvious, therefore, that in such cases the principles above enunciated do not apply. They must be considered independently on their own merits as the occasions arise.

12. There are some further points connected with the general question treated in this Despatch to which I wish to direct your Excellency's attention.

13. Experience has proved that estimates of expenditure on public works in India are frequently unreliable, even though no work in ordinary times be commenced until a detailed survey and estimate has been made.

14. From the figures given in the margin, and which are taken from Tables V. and

Work.	Sanctioned Expenditure.	Expenditure to end of 1880-81.
IRRIGATION.		
Orissa canals - - -	£ 1,931,000	£ 1,953,000
Other projects - - -	—	220,000
		(in 1880-81)
RAILWAYS.		
Rajputana - - -	3,267,000	3,545,000
Western Rajputana - -	1,604,000	1,649,000
Holkar - - -	1,246,000	1,260,000
Rangoon and Irawadi Valley -	1,261,000	1,262,000
Northern Bengal - -	1,945,000	2,139,000
Punjab Northern - -	3,808,000	4,053,000
Total - - -	15,062,000	16,081,000

VI. appended to the financial statement of the current year, it appears that, in the case of several works, the limit of sanctioned expenditure has been already exceeded, or will be exceeded by the close of 1880-81, to the amount of 1,019,000*l.* I consider that, in all cases where the amount already sanctioned has been nearly spent without bringing the works originally contemplated to completion, fresh estimates should be prepared and submitted for sanction, in time to avoid the possible stoppage of the work and the breaking up of the establishments. By the adoption of this system, both your Excellency and Her Majesty's Govern-

ment will be afforded an opportunity of reconsidering, by the light of past experience, the expediency or otherwise of incurring additional expenditure on the work in question.

Page 33.

15. In paragraph 9 of my predecessor's Financial Despatch No. 105 of 27th March 1879, it was directed that in the autumn of each year a programme should be submitted for his approval, showing the principal productive undertakings in which it was intended to make progress during the next official year, and the expenditure contemplated during the year. It is, no doubt, desirable that public works' projects should be submitted to me separately for approval, with a view of their being placed on the list of sanctioned works, from which your Excellency may select those which you desire to include in the programme of the coming year; but, as each has to be considered not solely on its own merits, but with reference to the relative merits of others, the selection can only be conveniently made if all the projects are considered together. The annual programme being fixed, no departure from it should be permitted, save under the pressure of extraordinary circumstances.

16. To recapitulate briefly the contents of this Despatch, the principles in respect to productive public works expenditure, to which I request your Excellency will adhere, are as follows :—

- (1.) In the absence of private enterprise without subsidy, or guarantee under satisfactory conditions, irrigation works will be constructed by the State. Every encouragement should be given to private individuals to undertake the construction of railways if possible without such guarantee or subsidy; or, if this be found eventually impossible, by some limited form of such guarantee or subsidy, as explained in the earlier part of this Despatch.
- (2.) No more than 2½ millions may be borrowed in any one year for productive public works.

* Pages 63 and 159. No. 444 (Financial) of 13th November 1879, paragraph 11.

- (3.) No more than $2\frac{1}{2}$ millions is to be expended on such works in any one year, unless there are surplus funds derived from revenues of the previous year which it is thought desirable to appropriate for this object, or there is an unexpended balance of the money borrowed in preceding years, which may be re-allotted and added to the amount available in the succeeding year.
- (4.) A transfer corresponding to the amount of the surplus so expended must be made from the general debt to the productive public works debt.
- (5.) The question of constructing new railways is to be considered on commercial principles. No new line is to be undertaken unless there is a good prospect of its proving remunerative; that is to say, unless it can be fairly calculated to pay, within a maximum limit of five years from the date of the line being open for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions.
- (6.) In the case of irrigation works, commercial principles may be so far relaxed as to admit of their being undertaken, if they can fairly be estimated to prove remunerative in ten years from the date of their completion, on similar terms.
- (7.) Protective works which are unremunerative are to be constructed out of revenue.
- (8.) Works constructed under the pressure of war or famine do not come within the scope of the principles enunciated above. They are to be considered on their own merits as the occasions arise.
- (9.) Before a project is sent home for my sanction, a survey and detailed estimate is invariably to be submitted and approved by your Government.
- (10.) Whenever the amount sanctioned is found to be insufficient to bring the work to completion, fresh estimates are to be promptly prepared and submitted for sanction.
- (11.) A programme of productive public works expenditure for the coming year is to be submitted for my approval in the autumn of each year.
- (12.) Some of the principles now laid down are avowedly of a temporary character, but, until they are modified, the essential point for your Excellency's Government to consider, in connexion with any particular scheme which may be submitted for your adoption, is whether, in the application of those principles, the facts of the case in question admit of its being included in the class of productive works.

17. I would suggest to your Excellency that it might be advisable to communicate this Despatch to the several local governments, and to request that they will only submit for your approval such undertakings as present a fair prospect of falling within the category of productive works as now defined.

I have, &c.

HARTINGTON.

No. 70.

LETTER from the GOVERNMENT OF INDIA, January 19, 1881, No. 18 (Financial).

MY LORD MARQUIS,

ON December 20th your Lordship telegraphed to us as follows :—

“Yours 13th November, and Letter 170, 16th November. Am advised there are no legal difficulties with Eastern Bengal Company. Propose to grant concession of Central Bengal Railway to Rothschild, giving land within limit of your estimate. Await Baring's arrival. Shall defer action until your reply by telegram.”

On January 6th we replied as follows :—

“Your telegram 20th. We highly approve the principle of making public works by private agency, provided right of purchase after fixed term, say 30 years, is reserved. But in the present case it will be well to consider whether it would not be desirable, in the interests both of the State and of the capitalists concerned, to place Eastern and Central Bengal Railways in the same hands after 1883. Committee will report in a fortnight. We think their report should be awaited, but you will doubtless telegraph if the delay involve danger of the project falling through altogether.”

On January 9th your Lordship replied as follows :—

“ I am of opinion that delay will seriously imperil (the) negotiations. No private company will accept a lease of 30 years; 99 years necessary.

I do not consider the joint administration of the two lines so important as the promotion of a successful experiment of private railway construction.”

On January 14th we replied to the above as follows :—

“ Your telegram of the 9th. Rothschild. Report of the Committee went privately by last mail. Better await, but most important not to risk negotiation. Committee propose 99 years' lease with power to purchase after 30, which we should prefer, but will not oppose such terms as you may deem fair.

2. We have now the honour to enclose the report of the Committee to which reference is made in our telegrams.

3. The terms of the contract to be entered into with Messrs. Rothschild must to so great extent depend upon the conditions under which the Company to be formed will undertake the construction of the railway, that we do not wish to express any very decided opinions upon the recommendations of the Committee. Your Lordship, being in direct communication with Messrs. Rothschild, will, without doubt, be able to judge to what an extent those recommendations may be modified without making undue concessions on behalf of the Government.

4. The following observations, however, occur to us.

5. The first and second recommendations of the Committee are obviously reasonable, and will not presumably give rise to any considerable difficulties.

6. As regards the third and fourth recommendations, we think that the right of purchase which must be reserved to Government should be after, say, 30 years, but the term will probably be a subject of negotiation between your Lordship and Messrs. Rothschild.

7. The fifth recommendation of the Committee must also be the subject of negotiation. Messrs. Rothschild may possibly wish to preserve the right of paying to the Government the sum advanced for land with compound interest thereon, in which case they might obviously claim on behalf of the Company to reserve all the profits.

8. The sixth and seventh recommendations will probably not raise any difficulties, although the term of three years, after which the Committee propose the line should be open for traffic, will, without doubt, be the subject of negotiation.

9. The points, however, to which we attach the greatest importance are, (1) that it should be made quite clear that under no circumstances can the Government become responsible to the shareholders for the payment of interest on their capital; and (2) that the maximum expenditure which will be incurred by Government on account of the purchase of land is Rs. 5,00,000. We do not doubt that in making the contract these points will be carefully borne in mind.

10. As regards the proposals made by the Committee in respect to the Eastern Bengal Railway, we think that it would on all grounds be more convenient as well as more lucrative to the Company that the Eastern and Central Bengal systems should be in the same hands. On the other hand, we agree with your Lordship that the joint administration of the two lines is not so important as the promotion of a successful experiment of private railway construction. The possibility of at once entering into arrangements whereby the two systems may be amalgamated will, without doubt, receive due consideration from your Lordship. In any case the possibility of effecting such an arrangement can be considered when the lease of the Eastern Bengal Railway expires in 1884, that is to say, before the new line will be completed. We are very desirous that the experiment now apparently about to be tried should prove successful, and we are therefore of opinion that the complications which may arise, unless the two systems are in the same hands, should be pointed out to Messrs. Rothschild before the contract is signed. We conceive, especially, that the new Company will be put to considerable inconvenience and expense, unless they can arrange to use the Sealdah terminus of the Eastern Bengal Railway in Calcutta. In these arrangements the East Indian Railway Company will have to be consulted, as the bridge at Hugli, sanctioned by your Lordship, is to be built on the faith of an understanding that that company will be allowed to use on equitable terms the line of the Eastern Bengal Railway, southwards from Nauhati station and the Sealdah station.

11. Your Lordship will observe that the Committee recommend that the new line should be on the same gauge as that of the Eastern Bengal Railway. We trust that the Company will be willing to accept this condition.

12. We have only to add that we shall be willing to assist the Company by lending engineer officers, &c., should they wish us to do so.

We have, &c.

RIPON.
F. P. HAINES.
W. STOKES.
RIVERS THOMPSON.
J. GIBBS.
D. M. STEWART.
E. BARING.

Enclosure in No. 70.

REPORT of a COMMITTEE appointed to consider what course Government should adopt with reference to the Eastern Bengal Railway on the termination of the first period of its lease, and the terms on which Messrs. Rothschild and Co. should be given the concession to construct a portion or the whole of the Central Bengal Railway System.

Calcutta, January 11, 1881.

Before submitting the scheme for the Central Bengal Railway to Her Majesty's Secretary of State, the Government of India appointed a Committee to consider and report on the bearing the proposed system had on the Eastern Bengal Railway, and what should be done when by the terms of its contract the Government becomes empowered to take over the latter line.

This consideration is of vital importance to the Central Bengal Railway, which requires the use of the two terminal stations of the Eastern Bengal Railway at Sialdah and Chitpore, and of the lines leading to these termini from the Chitpore Junction.

This consideration has become of still greater importance, now that the Secretary of State proposes to hand over a portion of the Central Bengal Railway for construction by a company to be formed under the auspices of Messrs. Rothschild, the consideration of which proposal has also been referred to the Committee.

The Eastern Bengal Railway is not only intimately mixed up with the working of the Central Bengal Railway, it is also connected with the Northern Bengal Railway, and with the proposed railway from Dacca to Aircha and Maimansinh, it forms indeed the trunk line of which all these are branches; and now that the Secretary of State has sanctioned the construction of the Hugli Bridge and connecting lines between Hugli and Naihati, the East Indian Railway will also require running powers over the portion of the Eastern Bengal Railway from Naihati to Chitpore and Sialdah, and the use of the terminal stations at these places.

The working of the Eastern Bengal Railway is thus so inextricably connected with numerous and important interests that, in order to avoid all unnecessary complications, the Committee is decidedly of opinion that the Government should exercise its right under the contract, and take over this railway as soon as it can do so.

Should the Government accept this conclusion, we are of opinion that there would be no objection to the concession to Messrs. Rothschild of the construction of the part of the Central Bengal Railway from Chitpore Junction to Jessor and Khulna, with a branch to Ranaghat, on the same gauge as the Eastern Bengal Railway, and to the grant of the land required free of cost, on the following terms:—

- 1st.—That the Government should be empowered to fix a scale of maxima fares and rates, and to insist on a certain minimum train service, such scale of fares and minimum service to be subject to revisions on the net profits on the share capital exceeding 10 per cent.
- 2nd.—That Messrs. Rothschild should concede similar conditions in regard to the transport of mails, troops, and Government stores to those prevailing on the East Indian Railway.
- 3rd.—That Messrs. Rothschild should agree to surrender the land, with the railway, and all stations, buildings, &c. erected on it, together with the equipment, in good working order, at the end of 99 years.
- 4th.—That Messrs. Rothschild should agree to give up the property, together with all the assets of the undertaking, to the Government, if called on to do so at the end of 30 years from date of contract, and afterwards at successive intervals of 10 years, on a year's notice, and on payment by Government of a sum per share (besides the debts due by the undertaking) equal to the mean average value of the shares in the three years preceding that in which the notice is given, together with a bonus of 20 per cent. on each share.
- 5th.—That Messrs. Rothschild agree to share equally with the Government the net profits earned in any one calendar year in excess of 8 per cent. on the share capital.
- 6th.—That Messrs. Rothschild bind themselves, subject to penalty, to complete the line and open it for public traffic, fully equipped for the train service specified in Article 1, within three years from date of contract, and thereafter to maintain the line and equipment in such condition as to be thoroughly safe for the conduct of the train service; the line and works being subject to inspection by a Government officer before opening for traffic.
- 7th.—That Messrs. Rothschild consent to keep the revenue accounts of the undertaking in the forms laid down by the Secretary of State, and to furnish the Government punctually with such accounts and statistics of working as may be required from other Indian railways.

In recommending that this concession be granted, we desire to point out that much difficulty would be obviated if Messrs. Rothschild would agree, in combination with the concession of the portion of the Central Bengal System asked for, to take a lease of the Eastern Bengal Railway, and to construct, on similar terms to those suggested for the Khulna-Jessor, Ranaghat, and Calcutta section, the rest of the lines required to complete the Central Bengal System, viz., from Ranaghat via Santipur to Murshidabad and Bhagwangola, with connecting line from Santipur to Mymaree on the East Indian Railway, and to work the whole as one system of railways, including, if desired, the Calcutta and South-eastern Railway with its proposed extension to Diamond Harbour.

Should Messrs. Rothschild be disposed to accept this arrangement, we would suggest the following as the general terms on which the Eastern Bengal Railway might be leased:—

- 1st.—Messrs. Rothschild to pay a rental equal to the mean average net receipts of the line for the three years previous to the execution of the lease, and (as provided in Article 5 above) to share equally with the Government any profits in excess of 8 per cent. on their share capital which may be earned over the whole system.
- 2nd.—Messrs. Rothschild to agree to terms for the through-booking of goods and passengers over their lines to or from the Northern Bengal, Dacca, and Maimansinh, or any other connected state or guaranteed railway, and to grant for this through-booking the minimum mileage rate then being charged on any part of their system for the carriage of passengers of the same class or of similar goods. No change of fare or rate being made without full notice being given to the connected lines.
- 3rd.—An obligation to give to the East Indian Railway Company power to run trains from the junction at Naihati with the new bridge line to Sialdah and Chitpore, and to use the terminal stations of Sialdah and Chitpore on payment of a toll of 8 annas per train mile, and terminal expenses proportionate to work the East Indian Railway, retaining all through fares.
- 4th.—An undertaking to construct whatever additions to the lines, stations, or buildings, south of Naihati, and at Sialdah and Chitpore, that may be required by the East Indian Railway Company for the convenience and accommodation of its traffic, on condition that the East Indian Railway Company pays interest on the cost of any works exclusively required for its use, and a proportionate interest on any works required for joint use.
- 5th.—An undertaking to keep the lines and equipment taken on lease in thorough order, and to surrender them without charge or claim for any compensation whenever the Government may acquire their other property, the Government also to have power of entry to enforce repairs during the continuance of the lease, recovering the cost of any such repairs from the lessees.

Should the Calcutta and South-eastern Railway with its proposed branch also be taken over on lease, which we think most desirable, the terms of the lease to be settled between the Government and the lessees, much on the same basis as suggested for the lease of the Eastern Bengal.

J. S. TREVOR.
F. S. STANTON.
A. J. FILGATE.

No. 71.

DESPATCH to the GOVERNMENT OF INDIA, January 20, 1881, No. 29 (Financial).

MY LORD MARQUIS,

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PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 2nd of November 1880, No. 359, replying to various inquiries or remarks contained in my Despatch of the 5th of August, No. 259.

2. The only point on which it is necessary for me to make any observation is the subject of local debenture loans. Your Excellency remarks that the chief inducement to the local governments to raise, and to local communities to subscribe to, such loans was, that they would thus obtain funds for expenditure on productive works which they would not otherwise receive, in addition to their share of the $2\frac{1}{2}$ crores to be spent yearly on such works. But, as the amount raised by means of such loans is to merge in the maximum allotment of $2\frac{1}{2}$ crores, you are of opinion that a local government will gain nothing whatever by raising a local debenture loan, and a local community nothing by subscribing to it, for it would be impossible, without starving the provinces which most need development, to allow to any province a larger share of the $2\frac{1}{2}$ crores merely because it raises a local debenture loan.

3. This does not appear to me to be a complete statement of the case. In the allotment of the funds to be expended on productive public works in an ensuing year, many considerations must have weight besides the need of development which the respective provinces may exhibit. It must be requisite to consider also the relative merits of the projects which have been approved, the supply of labour, and the provision of adequate supervision; and the facilities for obtaining the money to be expended may well form an element in the decision. I see no reason why a somewhat larger proportion should not be afforded to a province which has shown its readiness to raise a local debenture

loan for a particular work, although it could not be admitted that the mere fact of raising such a loan should give the province a right to claim a further allotment.

4. The necessity which has arisen this year for making a supplementary grant of 15 lacs for productive works shows the importance, in distributing the allotments, of retaining in hand a moderate amount to meet pressing contingencies. In the case of the lines from Cawnpore to Farrukhabad, from Muttra to Hathras, and from Dildarnagar to Ghazipur, an additional grant of five or six lacs to the province is all that would have been needed in any one year; and although, in the case of the Patna-Gaya line, there would probably have been more difficulty in providing the requisite funds out of the 2,500,000*l.* borrowed, I am unwilling to believe that it is necessary to abandon all expectation of raising money locally for remunerative works to be constructed in the neighbourhood of the subscribers to the loan.

I have, &c.

HARTINGTON.

No. 72.

EXTRACTS from DESPATCH to the GOVERNMENT OF INDIA, January 27, 1881, No. 14 (Railway).

PARAGRAPH 1: I have had under consideration in Council your Excellency's Railway Letter of the 7th September 1880, No. 128, submitting proposals for carrying into effect certain railways suggested in a Minute by General Fraser, copy of which was received by me with your Financial Letter No. 184, of the 8th June last.

Page 78.

2. You divide these projects into three classes, viz. :—

- (1.) Those called provincial lines, which may be relegated to local administrations.
- (2.) Those likely to prove productive, and which are calculated to strengthen the military position of the country.
- (3.) Those which may be constructed to the best advantage as integral parts of the guaranteed railway system of India.

3. The first class embraces the larger number of the works now brought forward. Most of them have been already recommended by the local authorities, who will, however, again have to examine them, both as regards their cost, and probable traffic, and the changes in the plan of operations proposed, before they are commenced.

4. It is unnecessary for me, therefore, to say more with regard to those works than to request your Excellency to bear in mind the condition on which loans for these purposes were sanctioned in paragraph 10 of my predecessor's Financial Despatch of the 13th November 1879.

Page 63.

* * * * *

5. In the second class you include the Rangoon and Toung-ngu Railway, which you state is considered by the civil authorities in British Burma, as well as by the commercial community in Rangoon, to be essential to the progress and development of the province. A further recommendation stated by you is, that, besides serving commercial purposes, it will establish an important political and military communication, and is an undertaking which has been placed by the Army Commission in the front rank of those required for the improvement of the defences of the Empire. Its construction now would also, you state, supersede the necessity for spending a large sum of money on the existing road. The length of the line is 164 miles, and its estimated cost, 1,169,827*l.*, or 7,133*l.* per mile.

6. You estimate that the receipts of the line will amount to Rs. 6,80,000 in the first year, with an expected increase of 20 per cent. per annum; and, though it would hardly be safe to draw the conclusion that, because the Rangoon and Prome Railway appears to be already a financial success, the Rangoon and Toung-ngu line would show a similar result within the same space of time, yet the steady progress which has been made in the material prosperity of British Burma, and the success which has attended the railway from Rangoon to Prome, favour the expectation that such a line would help further to develop the trade of the province; and, as regards the particular district through which this line will pass, you state that "it will carry to Rangoon" for export the produce of the rice plains of the Shwe-gyeng district, now practically "cut off from the sea; it will open to immigrants from the Shan and Burmese territories a large tract of fertile land for settlement; and it will carry to and from Rangoon the bulk of the large and rapidly increasing trade with the Shan and

" Karen States, to the north and east of Toung-ngu." The confidence of the Chief Commissioner in the scheme is shown by his willingness to accept as a provincial charge interest on all sums advanced for its construction.

7. For these reasons, I have come to the conclusion that the scheme is one which it would be desirable to adopt.

Page 101.]

8. In your Public Works Letter, No. 94, dated 5th October last (regarding appropriation of funds for expenditure on productive public works in 1881-82), you proposed to treat this railway under that category; and in the fifth paragraph of your letter under reply, it is stated that the payment of interest on all sums so expended will be made good from provincial funds, as accepted by the Chief Commissioner, this payment to be continued until 4 per cent. is realized as net profits. On this understanding I shall be prepared to sanction the line being constructed as a productive public work, on your showing that the conditions laid down in paragraph 8 of my Despatch in the Financial Department, No. 1, of the 6th instant, can be complied with.

9. The third class of works for consideration embraces a line from Raewind on the Multan branch of the Punjab and Delhi Railway to Firozpur, and you recommend that, as a branch to that railway, it should be handed over to the Sind, Punjab, and Delhi Railway Company, to be carried out as an addition to their undertaking, with the usual guarantee of interest on the necessary capital, estimated at 12½ lacs. Irrespective of the objection which I should have to increase the obligations of the Government to this Company by the further grant of a guarantee, I feel obliged, with reference to the limited means at the disposal of your Government, to give a preference to other works of importance the construction of which is urgently demanded. This branch must, therefore, be postponed.

No. 73.

DESPATCH to the GOVERNMENT OF INDIA, February 10, 1881, No. 60 (Financial).

MY LORD MARQUIS,

Page 94.

PARAGRAPH 1. I have considered in Council your Excellency's Letter dated the 2nd of November, No. 361, drawing attention to the fact that in the finance and revenue accounts the whole of the revenue due to productive public works is credited thereto, but that they are debited only with the interest on that portion of their capital cost which has been charged under the head of productive public works capital outlay, and not with interest on the outlay previously incurred and charged as annual expenditure. On the other hand, interest is charged on all outlay recorded under the productive works grant, even though some of those works may have been eventually excluded from the category of such works. You accordingly propose to charge, in the productive public works portion of the account, interest on the whole capital outlay on such works, whether it has been charged against the heading of capital outlay on productive works, or not, and to omit interest on the amount expended on works excluded from that category.

2. At the time that your Excellency's Letter was received, the question was under consideration, with reference especially to the unduly favourable aspect of the works of irrigation in Madras, which results from bringing to credit the whole of the revenue, while debiting the interest only on the outlay since 1868-69. I approve of your Excellency's proposal in future to charge interest on the whole capital cost of all undertakings which are treated as productive works, whether expended from borrowed money or from revenue; and I request that the amount of the difference between that cost and the portion thereof hitherto debited to productive public works may be transferred in your accounts from your general debt to the debt incurred on account of such works, a corresponding sum being credited as an extraordinary receipt of the year, as in the case of the assets of the civil service annuity funds in the account for 1874-75.

3. In future, whenever an undertaking is admitted to a productive work, an amount equivalent to that portion of the whole capital outlay upon it which may have previously been charged as ordinary expenditure should be transferred to the debt incurred for productive public works, a corresponding sum being credited as revenue, and interest thereon should be thenceforward charged under expenditure on such works in the accounts.

4. With regard to your second proposal, that the account of these works should be relieved of interest on the outlay upon works not eventually admitted to be productive,

I consent to your proposal as far as relates to money hitherto expended, the requisite adjustment of the debt account being at the same time effected. With reference, however, to the future, I consider that it would greatly remove the wholesome check now exercised in regard to the entering upon schemes of a doubtful character, if it were felt that the outlay could, in the first place, be debited to productive public works, and afterwards removed to the heading of ordinary expenditure. It appears to me necessary that any charge once incurred on capital account from the productive public works grant, in accordance with the regulations, shall remain a portion of the permanent debt, the interest on which is debitable as expenditure on productive public works, unless the provincial government responsible for the expenditure is called upon to repay from its grant, in one or more years, the outlay thus incurred unproductively, in which case the amount will be brought to account as revenue.

5. With reference to the last clause of your Letter, I have not sufficient information to enable me to judge of the propriety of including the Salt branches of the Rajputana and Punjab Northern State Railways as productive works, but I have no objection to the treatment of these lines as a portion of the main line, the capital account being increased accordingly.

6. With regard to your further proposal respecting the Jhelum-Rawal-Pindi section of the Punjab Northern State Railway, I shall be glad of a more full explanation of the mode in which the accounts of the line will be framed, with reference to the instructions conveyed to your Government in Lord Cranbrook's Despatch of 19th of February 1880, No. 54, and to the further extensions of the railway now in progress. Page 72.

7. In conclusion, I have to point out that in many cases the actual outlay to the end of 1878-79, shown in the statements which accompanied your Letter under reply, does not agree with the outlay on those works mentioned in accounts 4 and 70 of the finance and revenue accounts for the year 1878-79.

I have, &c.

HARTINGTON.

No. 74.

DESPATCH to the GOVERNMENT OF INDIA, February 17, 1881, No. 73 (Financial).

MY LORD MARQUIS,

PARAGRAPH 1. In your Letter, dated the 6th of December last, No. 405, your Excellency states that, as the current capital expenditure on the section of the Punjab Northern Railway between Jhelum and Rawal-Pindi is being recorded as an ordinary charge under the head of railways, and as that on the section from Lahore to Jhelum will, except for rolling stock, be small, you have, in order to avoid inconvenience, determined that from the commencement of the year 1880-81 the whole of the capital outlay on the latter section, as well as that on the former, shall be recorded as ordinary charge under the head of railways. Page 98.

2. In my Despatch of the 10th instant, No. 60, I have requested further information on the subject of the mode in which you propose that the accounts of this railway should be kept. Your Letter now under reply renders it more necessary that this question should be carefully considered and dealt with, for it seems to me that some confusion has arisen, which it is desirable to clear up. Page 109.

3. In Lord Salisbury's Despatch No. 310A of the 27th September 1877, he laid down the principle that capital outlay on the works classed as productive should not appear as ordinary expenditure, but should be treated as though it had been supplied from borrowed funds, and should be added to the portion of the public debt regarded as due to public works investments, whether it had been actually borrowed, or had been provided from ordinary revenues as a charge during the year, or had been taken from the cash balances or any accumulated surplus. The reasons for this were explained in that Despatch, and they appear to me sound, and the instructions to this effect were repeated by me in my Despatch of the 6th of January 1881, No. 1. Page 100.

4. It will follow as a consequence of this procedure that the future capital outlay on the Lahore-Jhelum Railway (on which a large sum of borrowed money has already been spent), even if it be met from current revenues, should be treated in the public

accounts in no different manner from that which would have been adopted if the funds had been borrowed. There must be only one capital account, and the sum at its debit must all appear as public works debt. For the same reason the yearly receipts and charges on account of the working of the line as a whole must appear to the credit and debit respectively of the productive works items of the yearly revenues and expenditure.

I have, &c.
HARTINGTON.

No. 75.

DESPATCH to the GOVERNMENT OF INDIA, February 17, 1881, No. 8 (Public Works).

MY LORD MARQUIS,

Page 97.

PARAGRAPH 1. I have received and considered in Council your Financial Letter, No. 393, dated 23rd November last, in which you inform me that, owing to errors in the original estimates, the Swat River Canal, near Peshawar, which was sanctioned by my predecessor in 1876 as a work to be constructed from extraordinary funds, will exceed its estimated cost by Rs. 19,71,118, being nearly double the original estimate, while the returns on capital outlay, which were estimated when the work was sanctioned at $8\frac{3}{4}$ to $9\frac{1}{2}$ per cent., have now been reduced to 3.9 per cent.

2. Notwithstanding this great change in the conditions of the scheme, you request that the further estimate of cost now submitted may receive sanction as a charge to be met from borrowed funds, and that the project may be still retained in the category of productive public works. In support of this request you urge the great political advantages of the work when completed, together with the inconvenience and delay which will arise if the work should be removed from the productive public works list, and if funds for its prosecution have to be found only from ordinary revenue. At the same time, you freely admit that you would not have advocated its construction as a productive public work if the present estimate had been before you from the first.

Page 101.

3. In my Financial Despatch No. 1 of 6th January 1881, I informed you that, unless an irrigation canal were likely to pay 4 per cent. on the outlay within 10 years from the completion of the work, it should not be constructed as a productive public work from loan funds, and, were this a new work, it certainly could not be sanctioned as a work satisfying that condition.

4. Paragraph 10 of the Financial Despatch stated, however, that "such works as are already included in this productive class may, within the limit of expenditure already sanctioned, be concluded, even though the restrictions now imposed would, in some cases, prohibit their construction with borrowed money."

5. Had it been possible to complete the work within the amount already sanctioned, or even had the excess over the original estimates not been so great as to forbid the expectation that a 4 per cent. return might be realized on the revised estimate, within the term laid down as reasonable, the Swat Canal project would have fallen within the category of productive public works.

6. But the estimate, as now revised, involves an outlay so very much in excess of the first estimate, that the terms of the Financial Despatch before quoted preclude the appropriation of further loan funds to the work in its present form.

7. It is possible that, by reducing the length of the distributory channels, or by otherwise curtailing the dimensions of the work, the cost may be so reduced that a modified project may be brought forward which would justify the grant of further loan funds, but this is a matter which it will be for your Excellency's Government to inquire into and consider.

8. If the project cannot be so modified, the only alternative will be to defray any further outlay from ordinary income as funds are available. It will then become a question whether the amount already expended should not be recredited to productive public works funds, and charged against the ordinary revenue of future years.

9. Knowing the importance attached by your Excellency's Government, from a political point of view, to the completion of this canal, I should regret its abandonment or serious curtailment, especially after the large expenditure already incurred;

but, with reference to my recent Despatch in the Financial Department, I am unable to accede to your Excellency's request for sanction to the large outlay from borrowed funds as asked for in your letter under reply.

10. The untrustworthy nature of the original estimates has apparently given rise to the present difficulty in connexion with this work. I am aware that the exceptional character of the country through which the canal runs, has rendered the making of such an estimate, and the carrying on of the project, a work of unusual difficulty; but the errors in the original estimate appear from General Crofton's note which accompanies your letter to be of so cardinal a nature, that I am unable to perceive, in the absence of all the original documents now referred to, which in such a case should have been forwarded to me, how they could have occurred without laxity on the part of the framers; and I request that the present example may be held out as a warning to all officers employed on the preparation of such projects in future, that no estimates should be submitted to your Government or to me, of the accuracy of which, within reasonable limits, the superior officers of the department are not thoroughly satisfied.

I have, &c.

HARTINGTON.

No. 76.

DESPATCH to the GOVERNMENT OF INDIA, March 3, 1881, No. 82 (Financial).

MY LORD MARQUIS,

PARAGRAPH 1. I have considered in Council your Excellency's Letter, dated the 31st of August, No. 281, replying to the Despatch of the 23rd of October 1879, No. 420, with which Viscount Cranbrook forwarded to the Government of India the report of the Select Committee of the House of Commons on Public Works in India.

Page 91.
Page 60.

2. I observe that it is stated, in the 3rd paragraph of your Letter, that there is now no discrepancy as regards productive public works between the finance and revenue accounts and those of the Public Works Department. I trust that, in dealing not merely with the figures for the present and future years, but also with those of past years, care will be taken either to use those of the finance and revenue accounts or to explain any necessary discrepancy. In examining the calculations which accompanied your Excellency's Letter of the 5th of October last, No. 95 (Public Works), it was found impossible to reconcile the results for the years 1874-75 and 1876-77 with the published accounts for those years, and the figures for the later years also differed in some respects from those given in the finance accounts, as pointed out in my Despatch of this day's date, No. 11 (Public Works).

3. Agreement between the statements of the Public Works Department and the finance accounts being thus secured, I do not think it necessary that more detailed particulars should be given, except in special cases, than are contained in the appendix to the financial statement and in the accounts.

4. Nor will I, in view of your Excellency's remarks as to the laborious character of the work, require the statement which was desired regarding expenditure on harbour works.

5. As in the accounts of each year an amount equal to the whole recorded expenditure during the year, under the head of productive public works, is transferred from the general registered debt to the category of debt incurred for the construction of productive public works, I do not understand the remark, in your 8th paragraph, that the whole of the grant for productive public works is by no means from borrowed money. One of the recommendations of the Select Committee was "that all expenditure on the construction of productive public works should be treated as borrowed money," and the statement in the 2nd paragraph of your Letter confirms the view that it is so treated.

I have, &c.

HARTINGTON.

EXTRACTS from the FINANCIAL STATEMENT of the GOVERNMENT OF INDIA
for 1881-82.*Financial Statement by the Honourable E. Baring, March 25, 1881.*

* * * * *

FAMINE
INSURANCE.Capital
expenditure
on produc-
tive public
works.

81. A sum of 1,405,000*l.* appears under the head of "Productive Public Works" in the estimates for 1881-82 on account of the purchase of the Madras Irrigation Company's undertaking, and 860,000*l.* on account of capital expenditure on the East Indian Railway. 2,608,000*l.* appears as capital expenditure on productive public works. Of this sum 108,000*l.* is the unexpended balance of the grants of former years. The balance (2,500,000*l.*) represents the productive public works grant for the year. It is intended to spend 1,780,000*l.* on railways, 758,000*l.* on irrigation, and 70,000*l.* on the Madras Harbour Works.

82. No subject has of late years been more thoroughly discussed than the question of whether it is desirable or not to continue the policy of borrowing in order to construct productive public works in India. In 1879 a Committee of the House of Commons recorded its opinion that the expenditure upon railways and irrigation—

"Though not remunerative in the aggregate, has upon the whole been beneficial to India, and that, although considerable sums have been wasted, and certain profitless schemes undertaken, the policy of continuing to borrow for productive public works may, within the limits and restrictions herein-after laid down, be continued."

The committee then proceeded to lay down certain restrictions, the principal of which was that no more than 2,500,000*l.* should for the present be borrowed in any one year. The limited amount of capital available in India, the undesirability of adding to the sterling debt, the fact to which the committee allude, that in India there is little or no publicity, and still less extraneous engineering talent to criticise the projects emanating from the Public Works Department, the unavoidable difficulties encountered by any great central department, however zealous and intelligent its individual members may be, in exercising an effective control over the expenditure of vast sums of money, appear to justify this restriction. Successive Secretaries of State have adopted the principles recommended by the committee. The present Secretary of State has given somewhat greater precision to the instructions of his predecessors. It has been laid down that,—

"The question of constructing new railways is to be considered on commercial principles. No new line is to be undertaken, unless there is good prospect of its proving remunerative; that is to say, unless it can be fairly calculated to pay within a maximum limit of five years from the date of the line being open for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions."

In the case of irrigation works, it is said,—

"Commercial principles may be so far relaxed as to admit of their being undertaken, if they can fairly be estimated to prove remunerative, in ten years from the date of their completion, on similar terms."

83. Such are the instructions of Her Majesty's Government, and it would, in any case, be the duty of the Government of India to carry them into execution. But I wish to express my concurrence in the principles which have been laid down.

84. It is, however, manifest that a capital expenditure of 2,500,000*l.* a year is inadequate to meet the present wants of India. Are we therefore to abandon all hope of constructing canals and railways with the rapidity which the exigencies of the country demand? I hope not. It has always appeared to me a remarkable fact that India, with all its magnificent and, as yet, only half-developed resources, and with all the security to life and property resulting from a Government which, whatever be its defects, is at all events strong, honest, and well-intentioned, should up to the present time have been obliged to pledge the full security of the State in order to attract any considerable portion of the surplus capital of England. I hope that some railways afford sufficient attraction to induce private individuals to undertake their construction without the aid of Government, or, at all events, with a minimum amount of such aid. I do not question the wisdom of the policy which would permit private capitalists to embark in this field. It was therefore with pleasure that I read the following instructions which have been received from the Secretary of State:—

"In the case of railways, I do not doubt that your Excellency will bear constantly in mind the importance, whenever possible, of ensuring their construction by private

“ capital, either local or European. It is true that up to the present time no companies have been found willing to undertake the construction of railways without a Government guarantee; but I would, nevertheless, strongly urge upon your Excellency that, when any reasonable prospect of success presents itself, an endeavour should be made to encourage the raising of capital through private agency, on the exclusive security of the success of the undertaking. Any step in this direction will meet with my most cordial support and co-operation. In the event of its becoming apparent that the due execution of this policy is impracticable, it may become desirable to consider whether a modified system of guarantee might not advantageously be adopted. By a modified system I mean one so restricted in respect to time and to the rate of interest guaranteed as to give the subscribers a real interest in the efficient and economical administration of the railway.”

85. It is sometimes urged that a railway is a monopoly, and, for that reason, should be in the hands of the State, and not of any private interests. Further, that to concede the right of building a railway is to part with one of our most productive resources.

86. It is true that a railway is generally a practical monopoly. The State, therefore, should exercise so much supervision over its working as will prevent the monopoly being exercised in a manner detrimental to the public interests. Thus, the State should possess a right of inspection, in order that the line may be certified by competent authority to be safe for the transport of goods and passengers. It should regulate the maximum tariff, and fix the gauge on which the line is to be constructed. It is especially necessary that a conditional right of purchase, after the lapse of a certain period, should be reserved. But, when provision has been made for these and some other points, which I will not now enumerate, the necessity for State interference ceases. The interests of the public do not necessarily demand that the State should create an artificial monopoly in its own favour in respect to the construction of all railways.

87. As regards the loss of revenue, it may be urged that, if the profits of the railway be left to fructify in the pockets of the people, they will be more advantageously employed than would be the case were they paid to the State, with a great chance of their being employed on unproductive expenditure. Moreover, it is to be observed that the indirect benefits to the State and to the country resulting from the extension of railway communication are obtained equally well, whether the railways are constructed by Government or by private agency. The value of land is enhanced; new markets are opened; an impetus is given to the export trade; and the greater power of transport and concentration affords a hope that military expenditure may be reduced.

88. Even if the general arguments in favour of constructing railways solely through the agency of the State were more valid than I conceive them to be, I should still hold that those arguments did not apply in India. The first economic requirement of India is that her resources should be developed without delay, and that means of communication should be so improved as to facilitate emigration from districts which are over-populated to those in which labour is scarce. I doubt whether Government agency alone can adequately perform this task, and I hold that in any case it is not desirable that it should do so if private agency can be found to undertake the work. I am not without hope that, if an impulse can be given to railway construction by British enterprise, native capitalists will enter the field, either alone or in conjunction with Englishmen. I should regard such a movement as an important factor in the practical education of the people, inasmuch as it would tend to wean the natives of India from that dependence upon Government which is intensified by concentrating in the hands of the State all the organised skill which the construction and the management of a railway requires. If ever the natives of this country are to be schooled in the first rudiments of self-government, it is desirable that they should be encouraged to act for themselves in such matters, rather than that they should rely always upon that coercive philanthropy which insists upon doing everything for them.

89. A more real obstacle to the construction of railways by private agency without a Government guarantee is to be found in the fact that up to the present time it has not been found possible to form a company willing to undertake them. In fact, the impossibility of inducing capitalists to undertake the construction of railways in India at their own risk, with a minimum amount of Government interference, was one of the main reasons which led to the adoption of State agency in the place of the guarantee system in 1869.

90. Since 1869 the desirability of encouraging private capitalists to make railways without a guarantee has been frequently pressed upon the Government of India, and it has always been assumed that the policy was impossible of execution. It does not, however, follow that what was impossible twelve years ago is so now. During that period the financial aspect of railway enterprise in India has improved; whilst at the same time the amount of capital seeking investment in the world has increased. I am not over-sanguine as to the possibility of developing the resources of India rapidly through the agency of private enterprise, but the end to be attained is so important that the policy merits a further trial. Some progress has already been made. A company has been formed under the auspices of Messrs. Rothschild, with a view to the construction of a railway from Calcutta to Jessor and Khulna. I am hopeful that the example given by a firm of such high standing and reputation as Messrs. Rothschild will give an impulse to the construction of railways through the agency of private enterprise. If local capital will come forward, so much the better. If not, it is to be hoped that European capital will be forthcoming.

91. I am unable as yet to say anything definite as to the conditions under which concessions may be made to private capitalists. Possibly these conditions may vary according to the exigencies of each particular case. It appears to me, however, that the Government may legitimately help in a variety of ways short of giving a guarantee. Government officers may make surveys and estimates, and supply all necessary information with a view to enabling private individuals to judge for themselves whether they care to invest their money in any particular scheme. The land on which the line is constructed may sometimes be given free of cost. Possibly, in some cases, grants of waste land in the vicinity of a new line may be given. On the other hand, certain conditions, to some of which I have already alluded, must be imposed, and it will be important only to give concessions to such persons as can afford good security that they have at their command a sufficient amount of capital to carry out the undertaking to a successful issue.

* * * * *

During the last 12 years there has been a reduction of 3,558,000% in the net charge on account of productive public works.

No. 78.

EXTRACT from a DESPATCH to the GOVERNMENT OF INDIA, March 31, 1881, No. 52 (Railway).

Page 95.

PARAGRAPH 1. With reference to your Letter in this Department, No. 170, of

* Telegram from Viceroy, 5th February 1881.

Ditto to ditto, 10th February 1881.

Ditto from ditto, 21st "

Ditto to ditto, 5th March 1881.

Ditto from ditto, 7th " "

Ditto to ditto, 8th " "

Ditto from ditto, 9th " "

Ditto to ditto, 12th " "

Ditto from ditto, 24th " "

Ditto to ditto, 25th " "

16th November last, and to the telegraphic correspondence quoted in the margin,* I transmit herewith, for your Excellency's information, a copy of a correspondence which has taken place between this office and the promoters of the Bengal Central Railway, which will place you in possession of the conditions on which I have authorised the establishment of railway communication between Calcutta and Jessor and Khulna by the construction of a line from the Eastern

Bengal Railway, near Dum-Dum, to Barasat and Bangaon, and a branch from Ranaghat to the latter place.

2. In my telegram of the 12th March, requesting you to acquire land and throw up a rough embankment between Chagdah, subsequently changed to Ranaghat, and Bangaon, and between a convenient point near Dum-Dum station to Barasat, it was stated that the promoters also wished to avail themselves of the loan of engineers, and would repay expenses.

3. Such expenses will include all outlay except that incurred in obtaining land, which you will see by the terms agreed upon is to be provided by the Government free of cost to the company. A separate account should accordingly be kept of all charges, including salaries of engineers and cost of works, and rendered to the representative of the company, when he is appointed, in order that an early settlement may be made, and the conduct of the company's affairs transferred to his hands.

4. The contract, which is now in course of preparation, will be duly forwarded to your Excellency when it has been executed.

Enclosure 1 in No. 78.

CENTRAL BENGAL RAILWAY.

Memorandum of Proposal.

1. A company to be formed in England, with a share capital of 1,000,000*l.*, and debenture powers to the extent of 250,000*l.*
2. The primary undertaking of the company to be the construction, equipment, maintenance, and working of a broad gauge (5 ft. 6 in.) railway from Calcutta to Bangaon, Jessor, and Khulna. (About 109 miles.)
3. Power to be taken to extend the company's operations to include any one or more of the following (and whatever may be incidental thereto), viz. :—
 - A. The acquisition or hire and running of steamers, ferry boats, or other vessels in traffic connexion with the company's lines.
 - B. The construction, &c., and working of railways within the tract of country lying between the Eastern Bengal Railway on the west and north and the river Ganges on the east.
 - C. The construction, &c., and working of railways east of the Ganges and Meghna in traffic connexion with the primary undertaking by river steamers, including railway communication with Dacca and Maimansingh; with power also to acquire and work any mines of coal in this section.
 - D. The extension of the primary undertaking from some suitable point thereof across the Eastern Bengal line, and on to Murshidabad and the Ganges.
 - E. The construction, &c., and working of railways in the tract of country lying across the Ganges between the Northern Bengal State Railway on the east and the Oudh and Rohilkhand Company's lines on the west.
4. In case of offers being made to or invited by the Government for the undertaking of any of the above additional projects, this company to have the refusal or first offer.
5. The Government to give to the company, free of cost, and exempt from any State demands, all the land required for the primary undertaking, including ample and conveniently situated land for a terminus in Calcutta.

It is to be understood that the demands of the company will be based primarily on the estimates of the Government engineers, submitted with Mr. Martin's Letter of 19th December 1879, but, if the land provided in those estimates be found on further inquiry to be unsuitable or insufficient, the company may claim land in replacement or in excess, provided that any claims made under this proviso do not collectively overstep a limit determined by figures of cost or quantity twice those of the said estimates.

The requisitions of the company in respect of land to be subject to the concurrence of the Secretary of State. Any difference of opinion arising, which cannot be settled in discussion, being referred to arbitration.

6. If required by the company, the Government to endeavour to obtain for it running powers over any portion indicated of the Eastern Bengal Company's line (including that company's connecting lines in Calcutta) and over the Port Commissioners' and the Calcutta municipal lines. The company to have the right, however, at any time, to lay down an independent connexion between the company's Calcutta terminus (or some point of its line) and the said Port Commissioners' and the municipal lines, or either of them.

7. The capital of the company, as raised with the concurrence of the Secretary of State, to be paid into the Bank of England, to credit of the Secretary of State for India, and to be drawn from time to time, for the purposes of the company, in London and Calcutta and Jessor; the rate of exchange in the case of the last two places being the same as the budgeted rate fixed for the year by the Secretary of State.

8. The Secretary of State for India to undertake :—

- A. To pay to the company, half yearly, interest at 4 per cent. per annum on the capital of the company paid into his hands, until drawn for the purposes of the company; and
 - B. Pending the construction and opening of the primary undertaking for traffic throughout, to advance to the company, half yearly, such sum as with any interim net earnings of the company shall be equal for the half year to 4 per cent. per annum on the capital actually withdrawn for expenditure.
 - C. During four years after opening the primary undertaking for traffic throughout, to advance to the company, half yearly, any sum by which the net earnings of the company may for the half year fall short of 4 per cent. per annum on the capital of the company for the time being issued.
9. Any sums received by the company from the Secretary of State, whether by way of interest, or by way of advances under the foregoing provisions, to be repaid by the company, with simple interest at 4 per cent. per annum, by the appropriation towards that purpose (so long as required) of one half of all the net earnings of the company in excess of 5 per cent. on its capital for the time being issued.

10. The arrangements for the mail services, troops, Government stores, &c., to be the same as in the case of the existing guaranteed railways.

11. In case of the capital of the company not being obtained within six months, the company to have the right to relinquish the undertaking.

On behalf of the Promoters,

C. H. DICKENS, Lieutenant-General.

10th February 1881.

Enclosure 2 in No. 78.

The UNDER SECRETARY OF STATE FOR INDIA to LIEUT.-GENERAL DICKENS, C.S.I.,
March 2, 1881.

SIR,

HAVING considered the proposals submitted by the promoters of the Central Bengal Railway scheme, the Secretary of State for India in Council is prepared to assist them in obtaining, if necessary, Parliamentary powers for undertaking the operations and works described in paragraph 2 of their Memorandum dated the 10th February 1881, subject to the conditions and on the understanding now to be explained.

2. The operations described in Clause E of paragraph 3 of the Memorandum, viz., the construction and working of railways in the tract of country lying across the Ganges, between the Northern Bengal State Railway on the east, and the Oudh and Rohilkhand Company's lines on the west, are excluded from the concession as belonging to altogether a separate system.

3. The proposals contained in Clause A of paragraph 3 are accepted.

4. As regards the operations described in Clauses B, C, and D of the same paragraph, it is to be understood that, in the event of the Government desiring to construct railways coming within the terms of those clauses, or receiving any offer from third parties to construct them, the company to be formed by the promoters shall have a preferential right to the construction of all such lines of railway, subject to their acceptance within six months of the offer, on terms to be named by Government, to carry out any such line. It is also to be understood that this preferential right shall cease from the 1st January 1890.

5. As regards Clause C, so far as relates to a line from Dacca to Maimansinh, with a branch to Aircha opposite Goalanda, the necessity for a decision, in the sense of the preceding paragraph, has now become necessary, the Government of India having proposed to construct the above as State lines on the metre gauge.

6. The first work proposed to be immediately carried out, and called the "primary" undertaking in the Memorandum already referred to, is a railway from Calcutta to Jessor and Khulna, on the 5 ft. 6 in. gauge, for which it is approximately estimated that a capital of 1,000,000*l.* will be requisite.

7. The Secretary of State in Council is willing to enter into a contract with the proposed company for carrying out this railway, on terms to be hereafter more specifically settled in such contract, but based on the following general conditions:—

I. The direction and location of the line, as well as the extent and situation of the Calcutta terminus and of the stations and station yards, to be subject to the approval of Government. The general character of the structures, permanent way, and rolling stock, to be in conformity with the established standards of the Indian 5 ft. 6 in. gauge.

II. Subject to the approval provided for in the preceding paragraph, the Government will obtain and supply, without cost to the company, the land required for the original construction of the railway and the works appertaining thereto, and will grant a lease of the same to the company free of rent for 99 years.

III. The company to undertake to raise the capital in due time. A deposit of 10 per cent. to be paid as a first instalment, into the Bank of England, to the account of the Secretary of State, and further instalments of the capital to be paid, in like manner, as funds may be needed for the purposes of the company.

The sums thus deposited to be withdrawn from time to time by the company, as required by them for expenditure on their undertaking.

IV. The Secretary of State for India will pay to the company in London, half yearly, interest at the rate of 4 per cent. per annum, on the capital of the company deposited with him, until the same shall be withdrawn for the purposes of the company. Furthermore, until the opening of the "primary" undertaking for traffic throughout, or until the 30th June 1886, whichever event shall first occur, the Secretary of State will advance to the company half-yearly in London, such sum as, added to the net earnings of the company in such half-year, shall be equal to the half-yearly interest at the rate of 4 per cent. per annum on the capital actually withdrawn for expenditure.

V. All sums thus advanced to the company by the Secretary of State shall be repaid in London, with simple interest thereon at the rate of 4 per cent. per annum, by the appropriation of half the net earnings of the undertaking in excess of 5 per cent. on the capital for the time being issued, and paid up, until all such advances, with accrued interest, shall have been paid off.

VI. The Secretary of State to have power to purchase the undertaking of the company and its equipment at the end of 30 years, or 50 years, from the 1st of January 1882, by the payment of a sum of 125*l.* for every 100*l.* of stock, on giving one year's notice of his intention to do so.

VII. At the end of 99 years the works and buildings of the railway, together with the permanent way and structures fixed to the soil, shall become the property of the Secretary of State, who shall then pay the company the value of the rolling stock and all the moveable property pertaining to the undertaking.

VIII. The Government, if so desired by the company, will endeavour to obtain for them, on reasonable conditions, running powers for their engines, or goods, or passenger vehicles, over such portions of the Eastern Bengal Railway, and the Calcutta Municipal and Port Commissioners' Railways, as, in the opinion of the Government, may be necessary to ensure to the company convenient access to a suitable terminal station at Calcutta, and to the warehouses and wharves on the Hughli, or may, in the opinion of the Government, be otherwise expedient.

- IX. The rates and fares to be charged to be within maxima to be fixed by the Government, such maxima not to be lower than those in force on the Eastern Bengal Railway.
- X. In case of failure to work the line (by running at least one train each way per day) the Government to have power to step in and take possession, on terms to be specified in the contract.
- XI. The arrangements for the mail services, troops, &c. to be the same as on the guaranteed railways.
- XII. The arrangements for maintaining a telegraph on the company's railway, and a police force, shall be such as are provided in the contract with the East Indian Railway Company, dated 22nd December 1879.
- XIII. The company to be subject to the provisions of the Indian Railway Act of 1879, and to all other Acts of the Indian Legislature in force for the time being in the province of Bengal.
- XIV. The accounts to be kept by the company, and the returns of traffic, shall be in the form adopted for the Indian railways worked under the supervision of the Government, and shall be rendered at the cost of the company, and at the times prescribed by the Government.
- XV. Until all advances made by Government have been repaid by the company, the accounts of the company shall be subject to audit by an officer to be appointed by Government, and shall not be closed or accepted until they have been so audited.
- XVI. An arbitration clause will be included in the contract, but the Secretary of State in Council cannot depart from the terms stated in the first two of the aforesaid conditions, under which the Government will supply land free to the company.

I am, &c.
ENFIELD.

Enclosure 3 in No. 78.

LIEUT.-GENERAL DICKENS to the UNDER SECRETARY OF STATE FOR INDIA, March 7, 1881.

MY LORD,

I HAVE the honour to acknowledge receipt of your Lordship's communication of 2nd instant, with reference to the proposals submitted in my Memorandum dated 10th ultimo.

2. In reply, I have to say that, subject to arrangement of the formal contract, the general conditions indicated on behalf of the Secretary of State for India in Council are acceptable to myself and the gentlemen interested in the scheme.

3. Since submitting the original proposal, it has appeared to us very desirable that the concession thus so far agreed upon should be supplemented by an option to undertake, as part of the primary undertaking, and on similar terms as to land and payment of interest on expenditure, the 20 miles or so of line from Ranaghat (or Chagdah) to Bangaon, which, as your Lordship will doubtless recollect, originally formed an integral part of the system surveyed by the Government, and which it is estimated can be constructed without exceeding the total capital already proposed.

As a link connecting, through the Eastern Bengal line and the recently sanctioned Hugli bridge, the districts served by the company's line with those of the East Indian system, it would provide valuable facilities for through traffic westward, and more especially for obtaining coal supplies from Raniganj.

4. With reference to paragraph 5 of the Letter now under reply, relating to the Dacca-Maimansingh line, we await further communication, indicating more definitely the line projected, and giving the survey particulars, on receiving which a decision will in due course be arrived at.

5. Steps will at once be taken to form a company for undertaking the concession as the same may be finally arranged.

6. Meantime, I have to intimate that Messrs. Clarkes, Rawlins, and Clarke, of Gresham House, E.C., have been appointed the solicitors of the intended company, and will be ready to place themselves in communication with the proper authorities at the India Office on receiving notice to that effect.

I have, &c.

C. H. DICKENS, Lieutenant-General.

Enclosure 4 in No. 78.

LIEUT.-GENERAL DICKENS to the UNDER SECRETARY OF STATE FOR INDIA, March 11, 1881.

MY LORD,

IN continuation of my Letter of the 7th instant, I have the honour to state that the gentlemen interested in the Central Bengal Railway scheme will feel obliged if the Secretary of State will move the Government of India to proceed at once to take up land and get the rough bank thrown up on the two sections of the line which they wish first to commence upon, namely :—

(1.) From Chagdah on the Eastern Bengal Railway to Bangaon.

(2.) From some convenient point near the Dum-Dum Station on the same railway to Barasat.

2. We are anxious to get thus much progress made before the rains set in, and I am authorised to state that the promoters will undertake that the expense incurred on behalf of the intended company shall be repaid to the Government.

3. The opening of the two sections of the railway above named, with the permission and co-operation of the Eastern Bengal Railway Company, will enable the intended Central Bengal Railway Company to commence early next year traffic operations with the suburban district of Barasat and towards Jessor, carrying the traffic in both cases over the Eastern Bengal line into the station of Sialdah.

4. As it will be too late to secure this result unless steps be taken at once, I am to express a hope that the Secretary of State will telegraph to the Government of India immediately on the subject.

I have, &c.

C. H. DICKENS, Lieutenant-General.

Enclosure 5 in No. 78.

The ASSISTANT UNDER SECRETARY OF STATE FOR INDIA to LIEUT.-GENERAL DICKENS, C.S.I.,
March 22, 1881.

SIR,

I HAVE received and laid before the Secretary of State for India in Council your Letter, dated the 7th instant, expressing the readiness of the promoters of the Central Bengal Railway to accept the terms upon which, as stated in Lord Enfield's Letter of the 2nd instant, Lord Hartington is prepared to enter into an agreement with them for constructing and working a line of railway from Calcutta to Jessor and Khulna, and requesting that the branch from Ranaghat (or Chagdah) to Bangaon may also be conceded to the company, as part of the primary undertaking, the capital of 1,000,000*l.* being, in the opinion of the promoters, sufficient to cover the cost of this section as well as the other line.

In reply, I am instructed to inform you that the Secretary of State is willing to include the branch in question in the work to be undertaken by the company. It will, however, be necessary to make arrangements with the Eastern Bengal Company for forming a junction with their line. A communication will accordingly be addressed to that company on the subject.

I am to suggest that the promoters should also place themselves in communication with the directors, in view to such arrangements being made as will be mutually satisfactory.

I have to add that instructions will at once be given to the legal adviser to the Secretary of State to prepare the necessary deed of contract.

With regard to the projected line from Dacca to Maimansinh, I am directed to forward the accompanying reports and estimates, containing all the information on the subject which has been received from the Government of India.

I am, &c.

T. L. SECCOMBE.

No. 79.

DESPATCH to the GOVERNMENT OF INDIA, April 7, 1881, No. 127 (Financial).

MY LORD MARQUIS,

Page 103.

PARAGRAPH 1. In the last paragraph of the Despatch addressed to your Excellency on the 6th of January, No. 1, I suggested that it might be advisable to communicate the Despatch to the several local governments, and to request that they would only submit for your approval such undertakings as presented a fair prospect of falling within the category of productive works as now defined.

2. On the 26th of February your Excellency inquired, by telegram, whether, in addressing the local governments accordingly, you were right in understanding "that the condition holds good that no work be undertaken unless the local government accepts responsibility."

Page 9.

3. I presume that the condition to which you allude is that mentioned in the Letter from your Government, dated the 2nd of May 1878, No. 186, with which you forwarded certain rules providing "that, if any local government desires to construct a productive public work, it must first satisfy the Government of India as to the character and financial prospects of the scheme. If the scheme is accepted," the Letter proceeded to say, by the Government of India and by the Secretary of State in Council, "and if the provincial government undertake financial responsibility for the work, then the construction and management of the work will be delegated entirely to the provincial government, subject only to a general control on the part of the Supreme Government."

4. The conditions regarding the position of provincial governments are now somewhat altered from what they were in 1878.

5. In giving the instructions contained in my Despatch of the 6th of January last, I made no allusion to the financial responsibility of the local governments, and I had no intention of directing you to enforce an invariable rule for such responsibility on their part; but I do not desire to interfere with your discretion, if, in any case, you should think fit to require such a condition, which, of course, would not be understood as relieving your Government from the necessity of satisfying itself as to the soundness of the estimates.

6. Your Excellency's telegram under reply put a further question in the following words:—"Regarding paragraph 2, what is the English practice about promoters making a deposit before appearing before the Parliamentary Committee?"

7. In reply, I have to inform your Excellency that promoters of English railways and tramways, if not an existing company, must, before a certain date (which, for the purposes of Parliament, is fixed at the 15th of January), deposit 5 per cent. of the estimated amount of capital.

I have, &c.

HARTINGTON.

No. 80.

EXTRACTS from a DESPATCH to the GOVERNMENT OF INDIA, April 28, 1881, No. 61
(Railway).

5. The additional proposal by the Chief Commissioner of Burma for extending the Rangoon-Prome Railway to the frontier at Allan-myo, also receives your support. The length of this line is 42 miles, and the estimated cost 37½ lacs, which it is proposed to meet out of provincial funds. Its chief recommendation is the political and military advantages which it will secure. It will at once bring the frontier military station of Thayet-myo into railway communication with Rangoon, and it will serve the purposes of trade by intercepting the river traffic at Allan-myo. I offer no objection to the commencement of the line, if you are satisfied that the capital required for its construction is available from provincial revenues, and that within five years of its completion its receipts will, together with those from the existing line, cover the interest of 4 per cent. per annum on the total outlay on both. In conformity with the principles laid down as to the addition of capital provided from revenue to capital provided from borrowed funds, the sum expended on the proposed extension from provincial revenues must be added to the original capital outlay on the Prome and Rangoon Railway, and the responsibility of the provincial revenues will be extended to the whole undertaking for which a single consolidated capital and revenue account will certainly be desirable.

* * * * *

8. The line to Maimansinh is, you are aware, included in the scheme for railways in Bengal which has been put before me by the promoters of the Bengal Central Railway Company. Having given them the first option of undertaking it, I have asked them to state whether they will be prepared to do so at an early date. Should this offer be declined within a reasonable time, this railway will form no part of the Company's system, and can be constructed as a State line.

No. 81.

LETTER from the GOVERNMENT OF INDIA, May 14, 1881, No. 46 (Railway).

MY LORD MARQUIS,

WITH reference to your Lordship's decision regarding the conditions under which sanction to the construction of the Rangoon-Toung-ngu Railway will be accorded, as communicated in the eighth paragraph of your Lordship's Despatch No. 14 (Railway), dated 27th January 1881, we have the honour now to submit for your Lordship's consideration that, though the peculiar circumstances of the case render it almost impossible to make any exact or detailed calculations of the receipts to be anticipated on this line, the prospects of its complying with the conditions laid down in paragraph 8 of Financial Despatch No. 1 of the 6th January 1881 appear to us to be so reasonably promising that we have no hesitation in recommending it to your Lordship for sanction. Our telegram to that effect is repeated in the margin.

Page 108.

Page 101.

Telegram, dated 6th April 1881.
From Viceroy, Simla, to Secretary of State,
London.

"Your Lordship's Despatch No. 14, Rangoon-Toung-ngu Railway considered productive under conditions of Despatch one. Details recommending will follow. If in doubt, Mr. Aitchison might be consulted. Sanction solicited by wire."

2. The grounds on which we have arrived at this conclusion will be found in the attached Memorandum by the late chief engineer of British Burma, which we have accepted as a fair representation of the case.

3. As regards provincial responsibility for the payment of interest on all money expended on the construction of this railway until 4 per cent. is realised as net profits, we have the honour to state that the Chief Commissioner of the province is ready to accept this responsibility at once. Mr. Bernard has recently again assured us of his confidence in the ultimate success of this undertaking, and pressed upon us the urgency of beginning work at an early date, in view of the important administrative and commercial interests which are so largely dependent on its completion.

4. As, however, your Lordship has already accepted the scheme for this railway as one which it is desirable to adopt, and the only point reserved for consideration before sanction is that of its fulfilling the conditions laid down for inclusion in the class of productive works, the data for which we now supply, it is unnecessary for us to repeat the arguments in its favour which have been advanced in our previous Despatches.

5. In anticipation of your Lordship's sanction, we have allotted 30 lakhs from the productive public works grant for expenditure on this line during the current year, and we consider it highly desirable that a commencement should be made as soon as possible.

6. With respect to your Lordship's telegram calling for the estimates of this line, as these estimates had been returned to the Chief Commissioner after careful scrutiny

in our Public Works Department, we have, to save time, telegraphed instructions to him to forward them direct to the India Office.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 82.

TELEGRAM to the VICEROY, May 21, 1881.

Rangoon-Toung-ngu Railway sanctioned.

No. 83.

DESPATCH to the GOVERNMENT OF INDIA, June 30, 1881, No. 88 (Railway).

MY LORD MARQUIS,

Page 119.

Page 101.

PARAGRAPH 1. I have to acknowledge the receipt of your Excellency's letter in this Department, No. 46 of the 14th May, in which you repeat the opinion expressed in your telegram of the 6th April, that the proposed Rangoon-Toung-ngu Railway may be considered productive under the conditions laid down in my Financial Despatch No. 1 of 6th January 1881, and explain the grounds on which you have arrived at that conclusion.

2. I have also had before me in Council the estimates of the cost of the line, which accompanied the letter from the officiating Chief Commissioner of British Burma, dated the 12th April, No. 2463/1 WR. These estimates simply confirmed the statement which had already been made that the probable cost of the line would be 1,169,827*l.*; but they were not accompanied by any evidence of its remunerative character. I understood, however, your telegram to convey the opinion which you have expressed in your letter under reply, and, in deference to your wish that arrangements should at once be made for commencing operations during the coming season, I addressed to your Excellency a telegram on the 21st May, according my sanction to the work.

3. The circumstances of the case are, you observe, such as to "render it almost impossible to make any exact or detailed calculations of the receipts to be anticipated." You have accordingly relied on the opinions of the present Chief Commissioner and the late chief engineer of British Burma, whose knowledge and experience no doubt qualify them to guide you in the matter.

4. The result will, I trust, justify the conclusion which has been arrived at, and I admit that it may not always be possible to avoid relying on authority rather than on facts; but, as a rule, preference must be given to the latter, and the question whether a work is entitled to be undertaken as a productive work should be capable of being presented in such a shape that a fair judgment may be formed of its remunerative powers. It is, I consider, right in this case, that "provincial responsibility for the payment of interest on all money expended on the construction of this railway until 4 per cent. is realised as net profits" should be accepted.

I have, &c.

HARTINGTON.

No. 84.

LETTER from the GOVERNMENT OF INDIA, August 5, 1881, No. 33 (Public Works).

MY LORD MARQUIS,

WE have the honour to report, for the information of Her Majesty's Government, that we have sanctioned the enclosed recapitulation of the final revised estimate for the Ekruk Tank in the Bombay Presidency, at a cost of Rs. 12,28,243 for direct outlay, and, including Rs. 8,22,976 for indirect charges, at an aggregate cost of Rs. 20,51,219.

2. The Ekruk Tank is a productive irrigation work, the original estimate for which was sanctioned by our Government under the rules then in force at a cost of Rs. 8,98,226 for direct outlay only. This sanction was subsequently raised, under the same authority, to Rs. 11,99,395 for direct outlay, and, including Rs. 2,41,934 for indirect charges (exclusive of interest), to an aggregate of Rs. 14,41,329.

3. The present estimate is within the powers of our Government to sanction, and we have accorded sanction to it; but the provision on account of accumulated interest,

which in this case forms so large a proportion of the aggregate capital charges, and to which almost the whole of the large excess in the final revised estimate is due, appears to us to call for further consideration.

4. In the case of irrigation works, the date of opening of the revenue account is often considerably in advance of the date of completion of the works. In the project now under consideration the works will not be completed until so late as the tenth year after opening of the revenue account. The present practice in this matter, based on the instructions of your Lordship's Despatch No. 1, dated 6th January 1881, is to debit the accumulations of simple interest up to the date of completion of the works to the capital account of the project, and thenceforward to record in separate statements the net revenue and the interest charge for each year. On this principle the interest charges have been calculated in the accompanying estimate for the Ekruk Tank; and the result is that they increase the capital account by more than 50 per cent. Page 101.

5. This procedure appears to us to press unfairly on the works; and we would suggest, for your Lordship's consideration, whether in the case of irrigation works the date of opening of the revenue account should not, when the circumstances justify it, be taken as the date on which arrears of accumulated interest should cease to be added to the capital account, instead of invariably continuing these debits to the date of final completion of the works.

6. Much would, of course, depend upon how the principle is worked in practice. It is certain that the capital expenditure on an irrigation work will not be completed when a work begins to earn revenue; and it is also possible that a work might be yielding some insignificant revenue while large sums remain to be expended on capital account. In the latter case it would not be justifiable to cease the inclusion of interest charges merely because the revenue account had been nominally opened. But in cases where the bulk of the capital expenditure has been incurred at the time when the revenue account is opened, we see no objection to the adoption of this date as the period at which the capital account may be closed against the inclusion of interest debits, subject in each case to the sanction of Her Majesty's Government on consideration of the special circumstances and prospects of each work.

7. In the case of the Ekruk Tank, now under consideration, the works will not be completed until 1882-83. But the revenue account was opened in 1872-73, and by that time more than five sixths of the capital had been expended. If the suggestion made in the sixth paragraph of this Despatch were adopted, the effect would be to reduce the interest debit from Rs. 7,16,289 to Rs. 1,40,160, and the total capital charge from Rs. 20,51,219 to Rs. 14,17,090, and we recommend that in this case this course should be adopted.

8. A further point in connexion with this subject is the rate at which interest should be calculated. In your Lordship's Despatch quoted above,* 4 per cent. is the rate laid down for calculating in future estimates. At present interest on productive public works expenditure is calculated at $4\frac{1}{2}$ per cent.; but, so long as our Government is able to borrow, as it is at present, at 4 per cent., it appears to us that to go on calculating the interest on this expenditure at $4\frac{1}{2}$ per cent. unduly weights the works, and makes them appear less profitable than they may fairly be held to be.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 85.

DESPATCH to the GOVERNMENT OF INDIA, August 11, 1881, No. 105 (Railway).

MY LORD MARQUIS,

PARAGRAPH 1. Your Excellency has been informed, by the correspondence which has from time to time been forwarded to you, of the proceedings which have taken place in connexion with the Bengal Central Railway. I now forward one part of a contract† which has been entered into with Lieutenant-General Dickens, preparatory to the formation of a company for the establishment of railway communication between Calcutta, Jessor, and Khulna, with a branch to connect it with the Eastern Bengal Railway at Ranaghat.

* No. 1, dated 6th January 1881.

† Dated 13th July 1881.

2. You will have learnt, by the correspondence which has passed with the directors of the Eastern Bengal Railway Company, that they are prepared to afford the necessary facilities for forming a junction at or near that station on their line.

3. The main conditions, on which the contract has been based, were contained in the letter, dated the 2nd March, 1881, from Lord Enfield to General C. H. Dickens, C.S.I., who is now the Chairman of the Company.

4. I refer your Excellency to the detailed provisions of the contract, which will clearly explain the engagements entered into with the new company, and it is only necessary that I should make a few observations on some of the more important stipulations.

5. My desire has been to avoid all unnecessary interference with, or control over, the affairs of the company, and to secure for the Government only such power of supervision as will protect the interests of the State in respect of the power of purchase and the repayment of the advances for interest made while the line is being constructed.

6. It will be observed from Lord Enfield's letter to General Dickens, dated 2nd March, that the present contract is designed to deal only with the lines of railway described in the promoters' prospectus as their primary undertaking, and that it does not extend to any project for steam navigation, or other lines of railway, any proposals relating to which will have to be treated separately on their own merits.

7. In giving form to the stipulations securing to the Government the power of purchase of the railways to which the contract refers, it became necessary somewhat to modify the shape in which the premium of 25 per cent. agreed upon was originally described; and you will see that, in the clauses referring to the purchase, the payment is to be based on the capital expenditure as accepted by the Secretary of State, instead of on the capital of the company, as originally mentioned in Lord Enfield's letter.

8. One important object, therefore, of the Government control over the operations of the company will be to secure strict attention to the entries of expenditure in the capital account being for objects which legitimately fall within the description of capital outlay, as defined in the contract in accordance with sound established principle.

9. It will also be observed that reference is made in clauses 21 and 42 to a sum which is to be agreed upon as the working capital of the undertaking, on which, in addition to the capital spent on the works, the premium of 25 per cent. will be paid (subject to the maximum stated) in the event of the purchase of the railway by the State. It is the intention that this sum shall be available to supply the company with needful funds for general purposes, and for the purchase of such stores as may be required for equipping the line for traffic, the cost of which has not been entered in the capital account. It will be in accordance with the original stipulations that, in the event of purchase, a premium of 25 per cent. shall be allowed on this capital as well as on that spent on works, but the company will only be paid the value of such stores as they actually hand over on the surrender of the line, which have not been charged in the capital account. The stores provided from the working capital will have to be replaced at the cost of revenue, and it will be necessary that proper care shall be taken to provide for this, and that the sum agreed upon as working capital is not in excess of legitimate requirements.

10. A power analogous to that of controlling the capital expenditure is also given in respect of the outlay against revenue, on the correct treatment of which will essentially depend the net receipts from which the Government has to look for the repayment of the interest advances made to the company.

11. In both of these cases, however, it is intended that the control of the Government shall only be exercised through an audit of the expenditure, the entire responsibility for incurring the outlay resting with the company, without any such previous authorisation as has been required in the case of the guaranteed railways.

12. The Secretary of State has felt that the interests of the company in enforcing all needful economy in its operations should be left under the exclusive protection of the company itself, and has been satisfied to guard the interests of the State by fixing an absolute maximum sum as the limit, beyond which the payment for the railways in case of purchase shall, under no circumstances, go.

13. It is also contemplated that the company shall exercise its discretion as to the time and manner of raising capital for the undertakings coming under this contract, subject only to the condition that the sums received by the Secretary of State on which he becomes liable to pay interest shall be no more than he thinks requisite for the purposes of the contract, and to any general powers that the company may possess under the law by which they are incorporated.

14. Under an agreement such as this, which leaves to the company complete freedom of action in the management of its affairs, the powers entrusted to the

Government under clauses 8 and 9 of the contract, must not be allowed to remain a dead letter. The former, indeed, supplies the only direct security the Government will possess against any possible disposition on the part of the company to let the undertaking fall out of repair, and so deteriorate in condition on the approach of the term of purchase.

15. It will be for your Government now to make the necessary arrangements for selecting the route of the line, which is described in clause 2 of the schedule to the contract, and the position of the stations; and, also, for obtaining the necessary land, which is to be handed over to the company, free of cost, for the term of their agreement.

16. One important question in connexion with this duty will be the manner of dealing with the company's Calcutta terminus.

17. You will observe that, by clause 2, it has been arranged that "sufficient terminal accommodation shall be constructed by the company in Calcutta, or provided by the Secretary of State, as he may decide." The intention of these words is, that your Government should consider and decide whether a new and independent station will be necessary or desirable, or whether some plan may not be devised by which, without incurring the heavy outlay which a separate station would involve, both in land and buildings, the requisite accommodation may not be provided at, or in addition to, the existing stations for the Eastern Bengal and the Calcutta and South-eastern Railways.

18. All these arrangements will properly form the subject of communication and discussion between your Government and the company's officers. When they are settled, the company will have to proceed with their part of the contract, and at once commence the execution of the works.

19. Your Government will, at the same time, have to settle how the business shall be conducted between your officers and those of the company, and the provisions regarding the appointment of a joint auditor in clause 28 may be specially noticed. Your measures, I would repeat, should be so taken that the action of the company shall be left as free as possible, and only so far controlled as is requisite to guard the interests of the public and of the State.

20. In the absence of any general law applying to railway administration in India, it has been found necessary to introduce certain provisions of a general character into the contract, such as those relating to the safety of passengers, the establishment of maximum tariff, and the principles on which the capital and revenue accounts should be drawn out. These are believed to be in accordance with the established practice on Indian railways.

21. A prospectus of the Bengal Central Railway Company is also forwarded herewith for your information, and I have to add that, under clause 19 of the draft contract, I have agreed that the first instalment of capital shall be 250,000%.

I have, &c.

HARTINGTON.

No. 86.

TELEGRAM to the VICEROY, August 11, 1881.

SEND all papers and agreements connected with Assam Railway. Prospectus issued by London Company alludes to transactions of which I have no knowledge.

No. 87.

LETTER from the GOVERNMENT OF INDIA, August 19, 1881, No. 217 (Financial).

Page 119.

MY LORD MARQUIS,

REFERRING to paragraph 8 of Despatch No. 61R. of the 28th April 1881, in which your Lordship mentions that the construction of the Dacca and Maimansingh Railway has been offered to the company formed for the Central Bengal Railway, we have the honour to forward a proposal for the construction by private enterprise of a portion of that line from Narainganj to Dacca and Maimansingh, and for continuing it across the Garo Hills to Gauhati in the Assam Valley, and, with reference thereto, to request that the decision of the Central Bengal Company on the offer made to them may be communicated to us at an early date.

2. Your Lordship will observe that the present proposals contemplate working the traffic between Goalanda and Narainganj by a steamer service, starting the railway from the latter place. We should not be disposed to object to this as a temporary arrangement, but we consider that powers should be reserved for Government to be enabled to call upon any company to whom a concession for this railway may be

granted to complete the railway to Aircha, opposite Goalanda, when required to do so.

3. We should accept, as a temporary arrangement, the continuance of the present steamer service between Goalanda and Nairanganj, which has now been maintained for many years by the Eastern Bengal Railway Company, chiefly because we are of opinion that in the general interest of the country it is more important that any available capital should in the first instance be expended on the extension from Maimansinh to Assam, rather than on the early completion of the railway between Aircha and Dacca.

4. Two routes have been suggested for the railway from Maimansinh into the Assam Valley—the one crossing the Garo Hills, and the other passing round the foot of the hills along the banks of the Brahmaputra. Neither of these routes has been as yet carefully examined, and we propose ordering a professional reconnaissance to be made during the ensuing cold weather, as the decision on the route to be followed must depend upon the engineering difficulties met with. We are, however, of opinion that, if a practicable route can be found for a railway across the hills, that route would have much to recommend it, as it would be very much shorter than the other, and it would open up a valuable coal field, which would not only provide fuel for working the railway at a moderate cost, but would also bring some very useful traffic for the railway.

5. Regarding the proposals now brought forward, we are of opinion that it would be preferable for the Central Bengal Railway Company to undertake the construction of the whole line to Assam, rather than that a new company should be formed for the purpose; but, looking to the rising importance of the Assam Province, we consider it in every way desirable that no unnecessary delay should be made in providing it with railway communication; and, therefore, if the Central Bengal Railway Company is not disposed to commence work at once on it, we would take the proposals now put forward into consideration.

6. It is unnecessary for the present that we should discuss these proposals in detail. We may remark, however, that, although we are prepared to stretch a point in favour of local capital, the suggestion that the Government should become a fourth-part shareholder in the undertaking does not, on the whole, commend itself to us.

7. We look upon the question of obtaining local capital as of very considerable importance; and, whether this line is undertaken by the Central Bengal Railway Company or by a purely local company, we consider that a portion at least of the capital should be reserved for Indian subscription, and that, if any local board of management should be appointed, some one or more resident subscribers, whether European or Native, should be asked to take seats on the board.

8. As your Lordship is aware, we have recommended the construction of the Dacca-Maimansinh line as a productive work, being satisfied that its commercial prospects justify that view. In the event of the Central Bengal Railway Company exercising their optional right to construct this line, the conditions under which they will undertake its construction will, without doubt, form the subject of negotiation between your Lordship and the directors of the company. The conditions need not, we conceive, necessarily be the same as those which were arranged in the case of the Jessor-Khulna line. On this subject we need at present only observe that we hope every effort will be made to get the line taken up without a guarantee, and that, if the company would agree, we should much prefer to concede better terms in regard to future purchase, if by so doing a guarantee could be avoided.

9. Should the Central Bengal Railway Company be prepared to add this railway to their other work, we would suggest that construction should be immediately commenced between Narainganj and Maimansinh. The estimated cost of this portion of the line is 62 lakhs, and it would only be necessary to raise this capital to commence with, leaving that required for the Maimansinh-Gauhati line for issue after the estimates were prepared on complete surveys.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 88.

EXTRACTS from DESPATCH to the GOVERNMENT OF INDIA, August 25, 1881, No. 107
(Railway).

PARAGRAPH 1. The accompanying prospectus relating to the Assam Railways and Trading Company was issued on the 5th instant, and, on the 11th instant, I requested you, by the marginally quoted telegram, to transmit to me all papers connected with the schemes in question, which had not been sent to this office. These would include the two indentures referred to in the prospectus dated respectively the 26th May 1880 and the 25th July 1881. Page 123.

2. Your last letter relating to this railway was dated the 22nd December last, and was accompanied by a copy of an agreement made between your Government and Messrs. Shaw, Finlayson, & Co. on the 22nd October 1879, but no copy of the one purporting to have been executed on the 26th May 1880 was transmitted.

3. I am at a loss to understand why, if such an indenture was made, it was not sent to me with your letter dated the 1st of the following month, or with that just mentioned. Page 77.

4. The existence even of the company under its present constitution has caused me some surprise, and I feel that I am placed in an anomalous and somewhat embarrassing position in regard to it. Throughout the negotiations which have been going on between your Government and the projectors of the scheme, the impression here has been that it was a purely local concern; that the company would have its location in India; that the money would be raised there from subscribers on the spot; and that the board would consist of persons connected with the Province of Assam, and that no part of the management would proceed from this country. It was, in fact, regarded as one of those works described in my predecessor's Financial Despatch No. 267 of the 31st July 1878, for which local capital would be raised "on the exclusive security" of the success of the works, giving to the subscribers every possible interest in the "management, and every inducement to economical administration." Page 29.

* * * * *

8. I am desirous of being informed of the exact terms of the recent concessions, as well as of the grounds on which they were made. I pointed out in my Despatch of the 26th August 1880, No. 90, that no provision had been proposed in the memorandum of agreement "for repaying to the Government out of the receipts of the railway whatever may be advanced under the "guarantee," and I hope to find that this point has been attended to in the new contracts. It will be necessary to adopt measures for the protection of Government in regard to capital expenditure, as the price to be paid by the Government in the event of purchase will be regulated by the outlay on that account. This may be effected by the audit which was provided in the original draft agreement, but the mode of carrying out such audit should be at once settled with the company, so as to fulfil this object. Page 91.

9. As regards the use of the name of the Secretary of State in Council, I am not aware whether your practice in cases similar to the present one is to frame contracts under the provisions of chap. 41 of 22 & 23 Vict., or whether you have availed yourself of the subsequent statute, chap. 59 of 33 & 34 Vict. (clause 2); I desire to be informed on this point, and I have further to request that, in future, whenever any schemes may possibly be offered for public subscription in Europe, you will refrain from committing the Government until the scheme has been definitely approved in detail by the Secretary of State in Council.

10. I cannot conclude these observations without expressing the hope that nothing which has occurred will hinder the accomplishment of the main object which your Government has had in view in granting concessions, and that the proposed railway will be carried out in a manner which will serve the interests of all who are concerned in the material advancement of the province of Assam.

No. 89.

TELEGRAM from the VICEROY, September 5, 1881,

YOUR Lordship's telegram of 11th August. Assam Railway indentures will be transmitted immediately. Head-quarters of company must be in India, to enable our Government to exercise the control required under Article 17 of indenture dated 26th May 1880. Page 123.

No. 90.

LETTER from the GOVERNMENT OF INDIA, October 15, 1881, No. 41 (Public Works).

MY LORD MARQUIS,

WE have the honour to acknowledge the receipt of your Lordship's Despatch No. 11, Public Works, dated 3rd March 1881, commenting on the series of statements comparing the actual transactions of projects classed as productive public works with the forecast submitted to Her Majesty's Government in 1875.

2. The statements were prepared on the basis of the forecast, and not on that of the finance and revenue accounts, and consequently the figures included therein did not work up to these accounts.

3. We have now had a fresh set of statements prepared, based on the finance and revenue accounts, and reconciling the figures contained therein with the figures embodied in those accounts. We also forward a brief commentary accounting for the differences between the forecast and the results, so far as this can be done in a general manner, which we imagine is all that your Lordship requires. The preparation of these returns and the commentary thereon has been a work of considerable labour.

4. No credit has been taken in these statements for land revenue due to the irrigation projects in Madras and Bombay, as no such revenue was taken to account in preparing the forecast; and the whole of the net revenue of these works has also been omitted, as this was not entered in the forecast, as explained in paragraph 23 of the memorandum which accompanied Lord Northbrook's Despatch No. 64, Public Works, dated 11th June 1875. Interest, however, has been charged on the whole of the capital outlay expended on the projects in these provinces classed as productive public works. In preparing the statements we have departed from the forecast in one particular. In showing the net results due to irrigation, the forecast included the revenue due to ordinary works in the North-western Provinces and the Punjab, as well as the revenue due to the productive public works. This revenue has still been entered in the detailed statements connected with irrigation works, but it has been excluded from the general summary.

5. The rate of interest throughout the statements has been taken at $4\frac{1}{2}$ per cent. per annum, the rate used in preparing the forecast of 1875; to use any other rate would vitiate any comparison between the forecast and the actuals. In the years 1876-77 and 1877-78, in arriving at the figures entered in the financial statements, interest was calculated at 4 per cent. only. Prior to 1876-77 the interest on productive public works was not exhibited separately in those statements. A statement is attached reconciling the interest figures now used and those entered in the financial statements, &c., commencing with the year 1876-77. In this statement it will also be seen that in the regular estimate for 1880-81 and the budget estimate for 1881-82 interest has been charged on outlay on productive public works from ordinary revenues, and no charge has been made for outlay from grants made under "38—productive public works" on certain works not so classified. These alterations have been omitted from the statements in connexion with the forecast, as they were not contemplated when that forecast was prepared.

6. No corrections have to be made in the statements in connexion with land revenue due to irrigation works for years before it was entered in the account as appertaining thereto, as all adjustments of this nature only pertain to Madras and Bombay, and the whole of the revenue and expenditure of the irrigation works in those provinces were omitted from the forecast.

7. The actual net results of the six years, as compared with the forecast of 1875, are as under:—

Guaranteed Railways.

	Estimated Net Charge to the State in forecast of 1875.	Actual Net Charge to the State.
	£	£
1874-75	1,230,170	1,299,956
1875-76	1,684,000	1,058,628
1876-77	1,496,000	330,073
1877-78	1,442,000	—617,263
1878-79	1,313,000	782,152
1879-80	1,215,000	839,635

State Railways.

	Estimated Net Charge to the State in forecast of 1875. £	Actual Net Charge to the State. £
1874-75	361,435	275,112
1875-76	460,823	363,103
1876-77	469,679	506,200
1877-78	497,265	621,198
1878-79	527,765	681,883
1879-80	568,265	—199,554

Irrigation.

1874-75	—25,900	46,429
1875-76	34,571	84,392
1876-77	45,241	168,571
1877-78	83,041	129,291
1878-79	122,441	94,937
1879-80	156,541	62,683

Guaranteed Railways, State Railways, and Irrigation.

1874-75	1,565,705	1,621,497
1875-76	2,179,394	1,506,118
1876-77	2,010,920	1,004,844
1877-78	2,022,306	133,226
1878-79	1,963,206	1,558,972
1879-80	1,939,806	702,764
Total	11,681,337	6,527,421

8. It will thus be seen that, while in the forecast of 1875 it was estimated that the net charge on the State in connexion with its productive public works would amount for the six years ended 1879-80 to 11,681,337 $\frac{1}{2}$., the actual charge has, as shown by these statements, only amounted to 6,527,421 $\frac{1}{2}$.,—a result which may be considered as highly satisfactory and to speak well for the future.

9. The charge also compares very favourably with the original forecast of 1869* for these years; this was as follows:—

	£
1874-75	1,607,500
1875-76	1,684,000
1876-77	1,754,500
1877-78	1,819,000
1878-79	1,862,500
1879-80	1,885,000
	10,612,500

We have, &c.

RIPON.
W. STOKES.
RIVERS THOMPSON.
J. GIBBS.
E. BARING.
T. F. WILSON.

No. 91.

LETTER from the GOVERNMENT OF INDIA, October 22, 1881, No. 270 (Financial).

MY LORD MARQUIS,

WE have the honour to forward for your Lordship's information a copy of our resolution in the Department of Finance, No. 3667, dated the 22nd October 1881, describing the changes which, in accordance with the instructions contained in your Lordship's Financial Despatch No. 60, dated the 10th February 1881, are to be introduced in the method of showing the accounts of productive public works.

Page 108.

* *Vide* Government of India Despatch No. 64, dated 11th June 1875.

Page 109.

2. In paragraphs 5 and 6 of that Despatch, and in your separate Despatch, Financial, No. 73, of the 17th February 1881, the question regarding the treatment of the outlay on the Salt branches of the Rajputana and Punjab Northern State Railways and the section from Jhelum to Rawal Pindi of the latter line is raised. We have no objection to the inclusion of the Salt branch of the Rajputana Railway with the main line as a single productive public work, and their complete amalgamation.

3. In regard, however, to the sections of the Punjab Northern Railway, we think it desirable that advantage should be taken of the readjustment of the productive public works accounts, now about to be carried out in accordance with the Despatch of the 10th February last, to reconsider the whole question of the treatment of the outlay on this line.

Page 98.

4. The present condition of the accounts of this line is stated below. In our Despatch No. 405, dated the 6th December 1880, it was proposed that the whole of the outlay on the Lahore-Jhelum section of the Punjab Northern Railway, as well as that on the Jhelum-Rawal Pindi section, should, after the end of 1879-80, be charged to "32—Railways." This proposal was made with the view of simplifying the accounts, as the current outlay on the Lahore-Jhelum section, being very small, would affect the outlay against "38—Productive Public Works" in a very small degree.

5. The construction of the section from Jhelum to Rawal Pindi was originally sanctioned as a productive public work in Lord Cranbrook's Despatch No. 14R., dated the 6th February 1879, at an estimated cost of 944,370*l.*; and to the end of 1879-80 a total outlay of Rs. 71,79,294 has been entered under "38—Productive Public Works" against this sanction. The work was being proceeded with as funds were available from the productive public works grant at normal rates, until the Afghan war broke out, when it was ordered to be accelerated. The great demand for labour and carriage which then existed sent up the rates enormously, and the estimates were utterly upset; and when, after the outbreak at Kabul and the commencement of the second campaign, orders were issued to complete the line at the earliest possible date, almost regardless of cost, the very large outlay needed to complete the line became apparent.

Page 72.

6. As the productive public works grant of the year had then been already allotted, it was determined to continue the construction of the line from grants under the ordinary head "32—Railways;" and in Lord Cranbrook's Despatch No. 54, dated the 19th February 1880, this procedure was sanctioned by Her Majesty's Government. The outlay incurred and provided for in the three years 1879-80, 1880-81, and 1881-82 from ordinary funds amounts to Rs. 1,01,94,700, making a total of Rs. 1,73,73,994 from both sources for the section.

Page 109.

7. In Financial Despatch No. 73, dated the 17th February 1881, your Lordship has ruled that the outlay on the Lahore-Jhelum section must continue to be treated as a charge to "38—Productive Public Works," and in paragraph 4 thereof it is added:—

"There must be only one capital account, and the sum at its debit must all appear as public works debt. For the same reason the yearly receipts and charges on account of the working of the line as a whole must appear to the credit and debit respectively of the productive works items of the yearly revenues and expenditure."

Page 109.

8. It follows from these specific orders, and also from the general instructions contained in your Despatch No. 60 of the 10th February 1881, that, under whatever head any portion of the whole outlay on the Punjab Northern line, including the section from Jhelum to Rawal Pindi and the Salt branches, is recorded, it must eventually be treated as "debt incurred for productive public works," the interest upon which must be shown as a charge in the productive public works account. The same course will have to be followed sooner or later in respect of the cost of the extension of the line to Peshawar, and consequently the result of the arrangement will be that a very large sum, representing non-productive expenditure, will be brought on to the accounts as productive public works debt in the returns laid before Parliament.

9. On the other hand, there is no question that to deal with the transactions of the line under different heads of account will lead to complications and additional expense. It would be very difficult, if not impossible, to separate the items of outlay properly due to any particular section from those due to the rest of the line; and, although the earnings could be more easily allocated, this could only be done by adding to the working expenses of the line, which are already very high.

10. The only other course open is to exclude the entire line from Lahore from the category of productive public works, and, for the reasons mentioned below, this course commends itself to our judgment.

11. The entire line from Lahore northwards was taken up as a purely political project in 1868. At that time it was never expected to be remunerative; and, in replying to the Secretary of State's Despatch on the subject, the Government of India remarked (Letter No. 50, dated the 25th March 1868) that the railway, or at least that part of it beyond the range of the salt traffic to Lahore, will not for a long time, except on special occasions, be worked beyond one train a day, or probably a train up one day and down the next. In 1869 it was roughly estimated that the cost of the whole line from Lahore to Peshawar without a bridge over the Indus at Attock would amount to about 529½ lakhs, and the estimated net earnings were put down at five lakhs, or less than 1 per cent. per annum. Nevertheless, in accordance with the classification of the day, the work was treated as an extraordinary work, as all railways and even military works, communications, embankments, &c. were then treated.

12. Now, however, the class of works which ought to be in the category of productive public works has been defined with clear precision; and in Despatch No. 8 of the 17th February 1881, your Lordship has directed that the Swat River Canal, which was sanctioned as a productive public work in 1876, shall be removed from the list of productive public works, because it is not likely to pay 4 per cent. on the outlay within 10 years from the completion of the work, as prescribed in your Financial Despatch No. 1 of the 6th January 1881. Page 110.
Page 101.

13. The whole of the outlay on the Punjab Northern line, including the estimates for the current year, has been charged off or provided for as under:—

“38—Productive Public Works.”

	Rs.
Lahore-Jhelum - - - - -	2,62,51,926
Jhelum-Pindi - - - - -	71,79,294
Total - - - - -	<u>3,34,31,220</u>

“32—Railways.”

Jhelum-Pindi - - - - -	1,01,94,700
Salt branches - - - - -	21,27,252
Northern section - - - - -	2,19,11,715
Total - - - - -	<u>3,42,33,667</u>

Thus the greater portion of the outlay incurred and to be incurred on the line is from grants under the ordinary head “32—Railways.”

13. Under these circumstances, as the line is not likely for some years to be productive under present definitions, we are of opinion that the entire line should be excluded from the category of productive public works.

14. In conclusion, we request the favour of a reply by telegraph, in order that the proposal, if approved, may be carried out in the accounts of 1880–81.

We have, &c.

RIPON.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

Enclosure in No. 91.

RESOLUTION by the GOVERNMENT OF INDIA, October 22, 1881, No. 3667.

READ the under-mentioned correspondence relating to certain alterations in the method of preparing productive public works accounts:—

Despatch to Secretary of State, No. 361, dated the 2nd November 1880.

“ from “ “ “ No. 60 (Financial), dated the 10th February 1881.

RESOLUTION.—In accordance with the instructions of Her Majesty's Secretary of State, the following changes shall be made in the method of showing profit and loss accounts of “productive

public works," as recorded in Account No. I. of the finance and revenue accounts presented to Parliament, and at the foot of Abstract II. appended to the annual financial statements :—

- I. In the expenditure side of the account, interest shall be calculated upon the whole capital cost of all undertakings which are classed as productive public works, whether recorded as extraordinary capital expenditure on such works or under one of the "ordinary" heads.
 - II. The entry "debt incurred for productive public works" in the general abstract prefixed to the finance accounts shall accordingly include, in addition to the "capital expenditure" outside the ordinary account, all sums spent on such works, but debited to the ordinary account. And, in future, whenever an undertaking is admitted to the category of "productive works," an amount equivalent to that portion of the whole capital outlay upon it which may have previously been charged as ordinary expenditure shall be transferred to the "debt incurred for productive works."
- But, inasmuch as these entries will only appear in the general abstract, and will not have to be passed through the books, they will not necessitate any adjustments in the accounts of ordinary revenue and expenditure.
- III. The productive public works account shall be relieved of interest on the outlay incurred on those of the existing works, which, though originally admitted to the category of "productive public works," have been eventually excluded from it, a corresponding reduction being made in the entry "debt incurred for productive public works."
 - IV. All outlay, however, on any work which may in the future be undertaken as a productive public work, in accordance with the regulations, must always remain a portion of the debt the interest on which is debitable as expenditure on productive public works, unless the provincial government responsible for the project is called upon to repay in one or more years the total outlay thus incurred unproductively.

The Governor General in Council desires that these changes may be carried out in the accounts of 1880-81.

No. 92.

LETTER from the GOVERNMENT OF INDIA, October 22, 1881, No. 120 (Railway).

MY LORD MARQUIS,

Page 125.

WE have the honour to acknowledge the receipt of your Lordship's Railway Despatch No. 107, dated 25th August 1881, enclosing the prospectus which has been issued by the Assam Railways and Trading Company, Limited; and in compliance therewith we send all the papers and agreements connected with the concessions alluded to in the prospectus.

2. As your Lordship observes, our last Despatch on the subject was No. 184 Railway, dated 22nd December 1880, and with that Despatch the railway indenture, dated 26th May 1880, was marked as an accompaniment, but by some unfortunate oversight the old agreement, dated 22nd October 1879, was sent instead. There is, however, little difference between the documents, the main and principal one being the extension of the term of guarantee from five to 20 years, to which your Lordship had already given consent.

3. The supplementary railway indenture, dated 25th July 1881, contains no matter of any material consequence. Beyond waiving as obligatory the construction of two small branch lines, and confining the preferential option of the company to the construction of other railways to the district of Lakhimpur, the clauses of this indenture only serve to define the intentions of the indenture of 26th May 1880.

4. There can be no doubt that the concessions for constructing the railway are the most important, and they may be considered as most liberal; but, as the circumstances of Assam are peculiar in almost the entire want of internal communications, we were anxious to open out the vast wealth now lying unproductive in this extreme north-eastern corner of the Indian empire; and, in order to induce private capitalists to devote a portion of their surplus capital to develop those resources, it seemed to us desirable to deal with the matter in a liberal spirit at the outset.

5. We understood, throughout our negotiations with Messrs. Shaw, Finlayson, and Company, that the money for the floating of the company was to be guaranteed by a syndicate of capitalists in London, but we were not prepared to find that Messrs. Shaw, Finlayson, and Company had sold the concessions made to them to a London company, merely retaining in their own hands the Calcutta agency of the company. We are not prepared to work with a London board of directors, and we telegraphed to your Lordship to that effect on the 5th September last. Clause 17 gives us the right to nominate two directors, with full powers to regulate rates, fares, and tolls, and to audit the accounts. Such work can only be done properly on the spot, and, to show that such was always intended and was admitted by Messrs. Finlayson and

Company, it is only necessary to read the last paragraph of the clause, which runs thus : " In the event of the office of either director or both directors being at any time vacant, the chief or superintending engineer of Assam shall exercise the powers of a director or of both directors, as the case may be."

6. We, therefore, cannot recognize the London company which has been started to work this enterprise. The concessions were given to Messrs. Shaw, Finlayson, and Company, a firm of merchants in Calcutta; if they were not able to float a company in India without extraneous aid, it was a matter of their own concern, but we are only prepared to treat with them either in Calcutta or in Assam. We have no objection to treat with an Indian company formed under the auspices of that firm for carrying out their works, as such a company is clearly allowed for in the indentures, but such a company must have its head office in India, and its officers in India must have full power, and without reference to any other power, to settle all matters in concert with our Government.

7. We now proceed to notice the further concessions, whether already agreed upon or still under discussion, in favour of Messrs. Shaw, Finlayson, and Company and others interested in the different projects. These may be succinctly designated the Makum coal and iron license, the Makum timber concession, and the Makum petroleum license. In the first two cases indentures have already been executed, and we append copies of these agreements, together with copies of the more important documents elucidating the negotiations. The petroleum license has not yet been finally settled, but all of its important terms have been agreed upon. The first and third concessions are understood to relate to one and the same area, namely, the Makum and Jaipur coal fields, in part adjoining the Naga boundary and lying south of the Daying river, about 7 miles from the proposed terminus of the Makum branch line. The second concession applies to a belt of land 3 miles broad, starting from that terminus, extending in a north-westerly direction for 24 miles on either side of the intended branch line, and ending at Dumduma, the junction on the main railway. The enclosures of this Despatch will place your Lordship in full possession of the facts, which may here be briefly recapitulated.

It will be convenient first to deal with the Makum coal and iron license. In 1877 Lord Salisbury, in his Despatch, dated the 26th June, No. 54, expressed a wish to be informed of any measures taken to utilise the large and valuable coal deposits discovered by Mr. Mallet at the foot of the Naga hills. Before the receipt of this Despatch, we had sanctioned, experimentally for three years, a set of rules for the leasing of coal sites in Upper Assam, which had been drawn up by the Assam administration. The terms, however, thus offered proved unattractive to capital, for reasons fully stated in a letter from the Chief Commissioner of Assam to the Government of India, dated 22nd March, No. 704 of 1879, which with the connected papers will be found amongst the annexures to this communication. Subsequently, in February 1880, we cancelled the rules of 1876, and decided, in accordance with the practice which had begun to prevail, that applications for leases of coal fields in Upper Assam should be dealt with on their separate merits, until, at least, any necessity for fresh rules should arise. In the meantime it had become clear from the correspondence with Messrs. Shaw, Finlayson, and Company, as representing the Assam Railway concessionaires, that the proposed extension from the Dibrugarh and Sadiya main line to Makum might be facilitated by the grant of a mining lease of the Makum coal area. Originally the firm had asked for a guarantee on this portion of their undertaking up to a limit of Rs. 35,000 a year, which, however, the Assam provincial revenues were unable to afford. The Chief Commissioner then offered to add Rs. 20,000 to the guarantee of Rs. 80,000 previously promised—an offer which received our approval, as afterwards reported to your Lordship.* Messrs. Shaw, Finlayson, and Company informed the Chief Commissioner in July 1879 that the reduced subsidy of Rs. 20,000 would suffice, if certain collateral inducements were held out to them to work the Makum coal; and, accordingly, after some intermediate correspondence, part of which† is already before your Lordship, we announced in a letter, No. 8, dated 22nd August 1879, the terms upon which we were prepared to allow the company the monopoly of the entire Makum coal field for five years, to be followed by a mining lease of particular coal-bearing plots. Nothing further was heard on the subject till February last, when it appeared that the investors were not prepared to take up the

* *Vide* our Financial Despatch No. 92, dated the 10th March 1880.

† Letter to the Chief Commissioner, Assam, No. 292, dated 16th July 1879, enclosed in Financial Despatch above cited.

coal project unless the period of the monopoly was extended from five years to 20. Conscious that this and other claims put forward on the same occasion involved extreme concessions, we nevertheless agreed with the Chief Commissioner that we ought not to lose the opportunity of utilising the Makum coal field, which might otherwise remain unworked for an indefinite time. We therefore reconsidered our terms in communication with the Assam administration, and finally accepted the indenture which accompanied the letter of our solicitor, No. 692, dated the 11th July last. As your Lordship will perceive from a perusal of this document, the concessions actually made are to the following effect:—

- (1.) The company is to enjoy for 20 years the exclusive privilege of mining for coal and iron in the area, not exceeding 30 square miles in extent, known as the Makum and Jaipur coal fields. Private and surface rights, licenses already granted to third parties, and the rights proposed to be conferred on the Assam Mineral Oil Company, are reserved.
- (2.) A rental is to be paid by the company of Rs. 50 a year for every square mile of surface ground, or, in lieu thereof, royalties of three annas per ton of coal and two annas per ton of iron ore worked or raised from the mines, the royalties to be payable if the rent is less than their amount.
- (3.) From 1883 to 1886 the company is to show a continuous weekly out-put of not less than 150 tons of coal, to be raised thereafter to 300 tons a week, unless a smaller quantity is accepted.
- (4.) The works may be inspected by Government officers, and detailed plans of the mines must be produced.
- (5.) Provision is made for reference to a professional mining engineer and two arbitrators in case of dispute, and the power of re-entry is to arise on any breach of covenant which cannot, in the opinion of the Chief Commissioner of Assam, be adequately compensated by payment of damages.
- (6.) On expiration of the 20 years of exclusive privilege, a lease or leases of not more than four square miles in the whole, in not more than eight separate plots of land, out of the Makum and Jaipur coal fields, will be granted to the company or its representatives for a further period of 30 years, on similar terms or on terms which may be mutually agreed upon.

8. It will be observed from the 8th clause of the railway indenture of the 26th May 1880, that the Assam Railway Company is entitled, subject to certain conditions, to fell and use without payment of royalty, on such Government land as may be assigned for the purpose, any timber required for the construction or maintenance of the railway or for fuel, but not for sale or export. The so-called Makum timber concession is entirely distinct from this arrangement. In July 1879, about the time when the Makum subsidy of Rs. 20,000 was sanctioned, Messrs. Shaw, Finlayson, and Company brought to the notice of the Chief Commissioner that the intended branch line would pass through a tract of forest land, which, if cleared, would be suitable for tea cultivation. In view to the promotion of traffic in the neighbourhood of the line, they solicited the right to fell, use, and export all timber standing within $1\frac{1}{2}$ miles of either side of the Makum branch, on condition (1) that they would leave enough timber standing for planters' bungalows and tea houses, &c.; and (2) that the usual royalty would be payable on each description of timber as fellings were made. Subject to certain reservations we accepted this proposal. The indenture consequently drawn up is enclosed; and it provides, in addition to the points above noted, that the concession shall be limited in duration to 20 years; that it shall not extend to the beneficial ownership in the soil, or to mines and minerals; that the Government may cancel it if operations are not adequately commenced within two years, or are inadequately prosecuted for any two years consecutively; and that the Government may demarcate and retain as a reserved forest any part of the area affected by the grant.

9. The proceedings connected with the Makum petroleum license originated independently of the railway scheme; and it was not till last February that we became aware that it had been proposed to amalgamate this project with the rest. It is unnecessary to enter upon this part of the case at any length, because its aspect, at the end of the month before last, is briefly and clearly described in Mr. C. J. Lyall's letter No. 920, dated the 25th July last, to the address of our solicitor. The application was made by Messrs. Balmer, Lawrie, and Company, as the managing agents of the Assam Mineral Oil Company in January 1878. In July of the same year we informed the Chief Commissioner what conditions we were disposed to approve, and orders, which were at the time intended to be final, were passed in our letter No. 35,

dated the 30th April 1880. The company was to have the right to extract petroleum and other mineral oils at certain specified localities in the Jaipur subdivision of the Lakhimpur district for a term of 50 years, subject to a rental of Rs. 50 per square mile, which was to merge in royalties payable on crude and refined oil, the excess only of the rental above such royalties being realised. Timber might be taken for fuel, buildings, bridges, and packing purposes, and coal might be raised for fuel, to be used either in the manufacture of the oil or on board steamers worked or chartered by the company. Precautions were further adopted to prevent conflict with the coal concession in favour of Messrs. Shaw, Finlayson, and Company. We desired, however, that the area to be included in the lease should be demarcated with precision; and this requirement has never been met, because Messrs. Balmer, Lawrie, and Company have not pointed out the boundaries. Quite recently, this firm, representing the area over which they desire to prospect for oil to be the same as that included in the Makum coal license, and urging that both undertakings would ultimately fall into the same hands, asked for the immediate grant of the petroleum license, subject to proper demarcation of the area two years hence. The Chief Commissioner reserved his opinion on this proposal, until he should be officially assured that the facts corresponded with the above-mentioned representations; and, pending the submission of his final views, we shall not move further in the matter. Meanwhile, whilst this Despatch was under preparation, we have been informed that the negotiations for the transfer of the oil concession to the Assam Railway Company have, for the present, fallen through.

10. Throughout the whole of the proceedings above recounted, we have been influenced by the desire to facilitate the development of a tract rich in resources, but remotely situated and hitherto inadequately supplied with the means of communication. We have relied on the assurance of the Chief Commissioner of Assam that the investors are persons of substance, and we have good hope that real efforts will be made to prosecute, with vigour and sufficient capital, the various projects in contemplation. Should any of the enterprises, which are now for the first time reported, fail to assume a true industrial character, we have guarded ourselves by authority to withdraw the concessions made. Our previous action in the matter of the Dibrugarh and Sadiya Railway has met with your Lordship's approval; and we trust that the slight modifications of the earlier indenture effected by the instrument of the 25th July last will now be sanctioned. It does not appear to us that the terms proposed, either in the Makum timber license or in the correspondence relating to the extraction of mineral oils, are at all unusual; and, if we have been liberal to the company in the concessions which refer to the Makum coal, it must be remembered, as already pointed out, that, from the remoteness of the coal tracts, there was no prospect of rendering these rich deposits available for use by the grant of any less extensive privileges. Some disadvantage possibly may be inseparable from the practical monopolies which the company will enjoy for a series of years; but these will, in our opinion, be amply compensated, if its operations stimulate production and trade in such a distant and hitherto undeveloped district as Lakhimpur. With these observations we submit the papers for your Lordship's confirmation of our orders on the various branches of the case.

We have, &c.

RIPON.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 93.

LETTER from the GOVERNMENT of INDIA, October 29, 1881, No. 45 (Public Works).

MY LORD MARQUIS,

WITH reference to Lord Cranbrook's Financial Despatch No. 105 of the 27th March 1879, we beg to forward herewith, for your Lordship's information and approval, the distribution of the outlay we propose to incur on productive public works in the year 1882-83. Page 33.

2. It is intended to provide a sum of 2½ millions sterling for outlay on productive public works in the estimates of 1882-83; and, as the outlay on the Madras Harbour Works is no longer to be charged to this head, we propose to apportion this amount as under :—

							Lakhs.
State Railways	-	-	-	-	-	-	180
Irrigation Works	-	-	-	-	-	-	70
					Total	-	250

State Railways.

3. The portion of the grant assigned to State railways we propose to allocate in the first instance in the following manner.

4. In the estimates of this year a sum of 25 lakhs was assigned for the construction of the extension of the Tirhut Railway to Bettia and Pipra Ghât, with a view to early completion of these extensions. We have since approved of additional grants to the extent of 6½ lakhs being appropriated for outlay on these extensions from the reserve and savings on other grants, and for the ensuing year we propose to allot a further grant of 16 lakhs, which will allow of the lines being opened for traffic before the close of that period.

5. For the other State railways in Bengal classed as productive public works now open to traffic, it is estimated that outlay will be needed on additional works chargeable to capital to the extent of Rs. 1,55,000. This amount can, we believe, be met by reduction of suspense accounts, and no assignment from the fixed grant will be needed.

6. The Government of the North-western Provinces and Oudh are anxious to proceed with the following projects :—

- I. Extension of the present Cawnpore and Farrukhabad Railway to the East Indian Railway at Hathras Road Station, to meet the Muttra and Hathras Railway.
- II. Junction of the Muttra and Hathras Railway with the Muttra and Achnera Railway, involving a bridge across the river Jumna.
- III. The first section of the Bareilly-Pilibhit Railway to accommodate the proposed railway from Ranibagh to Bareilly.

None of these projects have yet been submitted to us, although they are said to be in a forward state; but considering the many and pressing demands upon our limited grant, and the necessity which exists for completing and equipping our trunk lines of communication, we are not at present prepared to make any provisional assignments for these unsanctioned projects, saving a grant of Rs. 2,50,000 for the outlay on the first section of the Bareilly-Pilibhit Railway, which, if approved of by your Lordship, we shall be bound to put in hand, if the company to whom we have given the concession of the railway to Ranibagh are enabled to raise the necessary funds to construct that undertaking. We have called upon the local government to submit this project at an early date, when, if it meet with our approval, it will be duly forwarded to your Lordship for sanction.

7. For the lines that will be open in the North-western Provinces and Oudh at the end of this year we propose to allot a grant of Rs. 1,50,000 to carry out certain necessary capital works.

8. We have just received from the Government of the Punjab a project for a line of railway on the 5 feet 6 inches gauge between the Amritsar Station of the Sind, Punjab, and Delhi Railway and Pathankot, a distance of 65 miles.

This project has already received your Lordship's general approval, and we hope to submit the estimate for sanction at an early date; and, in anticipation of such sanction, we propose to assign a provisional grant of 20 lakhs for outlay on this project in 1882-83.

9. In the budget orders of the current official year, we made a provisional assignment of 30 lakhs for the prosecution of works on the Rangoon and Tsittoung Valley Railway. This railway has since been sanctioned as a productive public work in your Lordship's telegram of 21st May, confirmed by Despatch No. 88R., dated 30th June last, and the work is being rapidly pushed on. To meet the further necessary outlay on this railway next year, and to supply more rolling stock for the Rangoon and Irawadi Valley Railway, the traffic of which is rapidly increasing, as well as to replace a further number of the wooden bridges originally erected on this line by permanent structures, and

to provide additional works required to meet the increasing traffic, we propose to assign a sum of 30 lakhs in 1882-83. The railways in British Burma promise to be highly remunerative; the actual net earnings of the open railway during the half year ended 30th June last have amounted to Rs. 4,81,243, against Rs. 3,95,000 and Rs. 1,21,000 in the corresponding periods of 1880 and 1879 respectively. The net earnings realised in the half year ended 30th June last were Rs. 1,97,073 in excess of the interest on the capital outlay due to that period, calculated at the rate of $4\frac{1}{2}$ per cent. per annum—a highly satisfactory result.

10. As proposed in our Despatch No. 94 (Public Works), dated 5th October 1880, we assigned 20 lakhs for outlay on the Nagpur and Chhattisgarh Railway during the current year. On receipt of your Lordship's sanction to the estimate of the extension of this line to Nandgaon, we supplemented this grant by a further assignment from the reserve, and we now propose to allot a grant of Rs. 10,00,000 for capital outlay on this railway in 1882-83, which will allow of the whole length sanctioned being opened to traffic.

11. For the section of the Punjab Northern Railway from Lahore to Jhelum, the outlay on which is at present chargeable to the productive public works grant, we propose to allot a sum of Rs. 75,000 to carry out certain works which have been found necessary.

12. Considerable inconvenience and expense being now incurred in conveying the traffic of the Indus Valley Railway across the river Indus at Sukkur, we consider it desirable that steps should be taken to complete the railway communication across this river with as little delay as possible. This is the more desirable, as it is now found that the river can be bridged below the pass, with spans of no great length, for a much less sum than a bridge could be erected at the pass itself. We now propose that a commencement of the work should be made next year. For this purpose, the completion of the ballasting, the fencing of a portion of the line, and other works, we propose to assign a sum of 24 lakhs for capital outlay in the year 1882-83. We may add that we look upon the Indus Bridge at Sukkur as the most imperative want of the whole of our State railway system of open lines.

13. On the through opening of the Nimach-Nasirabad Railway, which we hope will be effected by the 1st January next, the whole of the Rajputana and Malwa system of metre gauge railways will be placed under one management. This system embraces the following lines:—

	Miles.
Rajputana (including the whole Western Rajputana Railway)	717 $\frac{3}{4}$
Holkar Railway	86 $\frac{1}{4}$
Sindhia-Nimach Railway	169
Nimach-Nasirabad Railway	134 $\frac{1}{2}$
Total	1,107 $\frac{1}{2}$

14. The great want on this railway at present is rolling stock. To meet this, the whole of the metre gauge rolling stock ordered for the Kandahar Railway is to be transferred to this system as soon as it is received. To provide for the payment of this stock and the Indian charges to be incurred thereon, provision to the extent of 12 lakhs must be made in the productive public works grant of next year. To supplement this an indent has been sent to your Lordship with our Despatch No. 109, dated 24th ultimo, for additional locomotives and vehicles for this system; the probable cost of these will amount to about Rs. 18,00,000.

15. To provide for the above rolling stock and additional workshop accommodation, staff quarters, offices, &c., and fencing on some portion of the line, considerable outlay will be needed. After carefully investigating the demands sent forward, we have come to the conclusion that it will be necessary to assign a grant of 50 lakhs for outlay on this railway in 1882-83. The returns from this system promise to be very satisfactory; for the half year ended 30th June last, the first half year the Rajputana Railway was open throughout, the net earnings have amounted to Rs. 16,37,651, or Rs. 4,61,588 more than the interest charges for the half year. When the line has been longer opened, a considerable increase in traffic may well be expected. No small amount of difficulty was experienced in dealing with the traffic that offered in the half year above alluded to, in consequence of the paucity of rolling stock and the want of

accommodation in the shops, &c., hence the large additional outlay now proposed. In connexion with this matter, we would again request that all the metre-gauge rolling stock now under supply in England originally ordered for the frontier railways, as well as that recently ordered for this railway, may be supplied with the least possible delay. This demand should be treated as most urgent.

16. To meet certain works still needed on the Dhond and Manmad Railway, which is now worked by the Great Indian Peninsula Railway, we propose to make an assignment, for outlay during 1882-83, of Rs. 75,000.

17. For the Sindhia Railway we similarly propose to assign two lakhs, for outlay on works chiefly demanded by the East Indian Railway authorities who are now working the line.

18. The allotments above proposed amount to Rs. 157½ lakhs; the balance of the amount proposed to be assigned to State railways, or Rs. 22½ lakhs, we think it desirable to hold in reserve for the present, until the actual requirements of each railway are better known.

Irrigation.

19. The probable allotments from the total of 70 lakhs assigned from the productive public works grant, for outlay on irrigation works during 1882-83, will be as follows:—

<i>Madras—</i>					Rs.
Godavari	-	-	-	-	3,00,000
Kistna	-	-	-	-	3,00,000
Sungam	-	-	-	-	4,00,000
					10,00,000
<i>Bombay—</i>					
Bigari Canal (Sind)	-	-	-	-	1,00,000
Kadwa project	-	-	-	-	1,00,000
Muta	-	-	-	-	70,000
Krishna	-	-	-	-	30,000
					3,00,000
<i>Bengal—</i>					
Orissa project	-	-	-	-	7,00,000
Midnapur project	-	-	-	-	1,00,000
Son project	-	-	-	-	6,00,000
					14,00,000
<i>North-western Provinces—</i>					
Ganges Canal	-	-	-	-	3,00,000
Lower Ganges Canal	-	-	-	-	15,50,000
Agra Canal	-	-	-	-	50,000
Eastern Jumna Canal	-	-	-	-	1,00,000
					20,00,000
<i>Punjab—</i>					
Western Jumna	-	-	-	-	6,00,000
Bari Doab	-	-	-	-	60,000
Sirhind Canal	-	-	-	-	16,40,000
					23,00,000
Total					70,00,000

20. The programme of operations will probably be as follows.

21. *Madras.*—The sanctioned portions of the Godavari and Kistna Delta works are practically finished. Revised and completion estimates for the Kistna project have been received, and, if sanctioned, work will probably be commenced on the proposed extensions, &c. during the current year. The revised estimates and those for extension of the Godavari project are expected before the close of the current year, so that work may commence in 1882-83.

22. The Sungam project, lately sanctioned by the Secretary of State, is in hand. Rs. 3,18,750 having been allotted for the current year, fair progress may be expected during 1882-83.

23. *Bombay.*—The sanctioned improvements to the Bigari Canal in Sind will be proceeded with. This work is approaching completion.

24. The Kadwa project, lately sanctioned as a productive public work by the Secretary of State, is in hand, and will probably be completed, or nearly so, in 1882-83.

25. The Muta project is nearly complete. The expenditure in 1882-83 will be on finishing up and on distributaries.

26. The expenditure on the Krishna Canal will be chiefly on distributaries.

27. *Bengal*.—The revised and completion estimates for the Orissa project have not yet been received. They are, it is understood, being reviewed by the local Financial Department, and will probably be submitted within the next month or two. The expenditure in 1882-83 will be mainly on distributaries.

28. The expenditure on the Midnapur Canal will be mainly on the completion of the distributary system. The outlay on the Son works will be chiefly on distributaries.

29. *North-western Provinces*.—On the old Ganges Canal the new escape and other works included in the completion estimate lately sanctioned will be proceeded with.

30. On the Lower Ganges Canal the outlay will be on the Bhognipur branch, on distributaries, and remodelling work on the Cawnpore and Etawah branches of the old canal, now included in the Lower Ganges Canal project. Irrigation is being rapidly developed from these new canals.

31. *Agra Canal*.—Completion of distributary system.

32. The Eastern Jumna Canal has lately been admitted into the category of productive public works. The outlay in 1882-83 will be on sanctioned remodelling and drainage works.

33. *Punjab*.—The new main channels of the sanctioned project for the improvement of the Western Jumna Canal are nearly complete, except the junction with the Agra Canal and a portion of the new distributary system.

34. The outlay during 1882-83 will be mainly on the new distributaries and the navigable junction from Delhi to the Agra Canal. The progress on the new distributary system is unavoidably slow, owing to the necessity for keeping up the existing supply of water for irrigation, and the almost entire remodelling of the network of watercourses involved.

35. On the Bari Doab Canal some expenditure will be required on finishing up new distributaries.

36. The Sirhind Canal will probably be opened in March next, but irrigation should not be commenced for a year after the admission of water, to give time for consolidation of banks, testing the works, &c. It will probably be advisable to close the canal at intervals during the first year for purposes of inspection and repair.

37. The outlay estimated will be on the British branches and distributaries. That on the Patiala branches is not included in the above programme, as it is advanced by the native states as required.

We have, &c.

RIPON.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 94.

DESPATCH to the GOVERNMENT OF INDIA, November 10, 1881, No. 61 (Public Works).

MY LORD MARQUIS,

PARAGRAPH 1. I observe from the budget estimates of works of irrigation and navigation, including productive works, for 1881-82, transmitted to me by your Excellency's Public Works Letter No. 28, dated the 8th of July last, that the Swat River Canal is still classed as a productive work, and that a sum of Rs. 4,88,600 is provided from loan funds for the prosecution of that work during 1881-82.

2. With reference to this I desire to call your Excellency's attention to my Public Works Despatch No. 8, dated 17th February last, which decided that no further loan funds could be provided for the construction of that work, unless the project could be

(47.)

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so modified as to bring it within the terms of my Financial Despatch No. 1 of this year.

3. I request therefore, that I may be informed what course you have deemed it desirable to adopt with reference to the accounts of the Swat River Canal, in consequence of the receipt of my decision as expressed in paragraph 8 of my Despatch of the 17th February last, and also that I may be furnished with any explanations you may desire to make for the apparent provision of loan funds for its prosecution during the current year.

I have, &c.

HARTINGTON.

No. 95.

DESPATCH to the GOVERNMENT OF INDIA, December 15, 1881, No. 174 (Railway).

MY LORD MARQUIS,

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PARAGRAPH 1. I have received and considered in Council your Letter No. 120, dated the 22nd October, together with the documents which accompanied it, regarding the Assam Railways and Trading Company, Limited.

2. These documents consist of correspondence with Messrs. Shaw, Finlayson, & Co., and of copies of indentures by which certain concessions are made to that firm in connexion with the railway in question. The terms are, you state, most liberal, but were granted with the desire, in which I entirely sympathise, of opening out the resources of Assam, a province which has hitherto been very deficient in communications.

3. You explain, however, that, although during your negotiations you understood that the money was to be raised by a syndicate of capitalists in London, you were not prepared to find that Messrs. Finlayson & Co. had sold the concessions made to them to an English company, merely retaining in their own hands the Calcutta agency; and you proceed to express strong objections to carry on the work of the company in India through a London board, desiring that the company should be purely Indian, its head office being in India, and its officers having full power, without reference to any other authority, to settle all matters in concert with your Government.

4. Whatever may have been your wishes and intentions with respect to the constitution of the company, I fear that they have been frustrated by the course of action which has been taken for bringing these transactions to a conclusion. An examination of the various deeds shows that no provision has been made for fixing the domicile of the company in India, and that there is not even any stipulation that the company shall appoint agents for the railway in that country. The deed of the 22nd October 1879 did contain a condition that the company should have "an office and agent at some place in India," but the words quoted were omitted from the deed of the 26th May 1880, which overrides the other. It appears also, by the correspondence which has taken place within the last year, that the existence of an association which was raising money for the undertaking in London was distinctly recognised; and I may remind your Excellency that, when in 1879 Messrs. Shaw, Finlayson, & Co. transferred to the first company, which was formed in London, the concessions which they had obtained in India, no objection to the arrangement was made by your predecessor when his attention was drawn to the prospectus of the company by Lord Cranbrook's Railway Despatch of the 24th December of that year, No. 199. In short, it is not now competent to your Government or to the Secretary of State in Council to refuse to recognise the company as constituted under the Companies Acts.

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5. With regard to the provision which you intended to make in clause 17 of the deed of the 26th May 1880, for the appointment of two Government directors, who should have power to regulate the rates and tolls and to audit the accounts, I am advised that the arrangement is so inconsistent with the general purport of the deed that it cannot be carried out. One object of that deed appears to have been so to alter the previous one of the 22nd October 1879 as to remove any limitations as to the company being Indian, which the last-mentioned deed imposed, and the appointment of two directors in India is not, of course, possible when the board of directors is in England, although such directors might, under clause 17 of the Agreement of May 1880, be appointed here. While, moreover, in the "timber" indenture, clause 13 provides for the keeping of an agent in Calcutta by Messrs. Shaw, Finlayson, & Co., there is no covenant that any joint stock company to whom they make over the concession shall do so.

6. I hope, however, that there will be no practical difficulty in making such arrangements with the company as will substantially meet your wishes with respect to the mode of conducting the business of the company in India.

7. With regard to the copies of the deeds which were transmitted with your letter, it was found that, besides various clerical discrepancies between them and the copies

* Clause 1. The name of the company in the said Agreement referred to as about to be incorporated and called "the Assam Railway Company, Limited," shall be and it is hereby altered to "the Assam Railways and Trading Company, Limited," as herein-before mentioned.

furnished by the company, the one dated the 25th July 1881 differed materially, inasmuch as the clause noted in the margin* was omitted from the former. An examination of the original deed in the hands of the company showed that their copy was correct. The words have an important bearing on the position of the company, conveying as they do to them the benefit of the earlier contract of the 26th May 1880; and the title "Assam Railways and Trading Company" denotes the new character and extended scope of the company's operations, which are explained in paragraphs 7, 8, and 9 of your letter.

8. After reviewing the whole of the proceedings connected with the negotiations with Messrs. Finlayson & Co., I regret that I cannot avoid the conclusion that the business has not been conducted with the care and circumspection which should characterise transactions of this nature. There has been inaccuracy and want of method throughout, and it is not surprising that your Government should be unaware of the position in which you are placed. It is impossible to estimate the inconvenience and confusion which may result from important engagements such as these being entered into, unless the terms are arranged with regularity and exactness, and ultimately put into legal forms, so as to leave no room for doubt as to the intentions and obligations of both parties to the agreement.

9. This leads me to the consideration of the question as to how far negotiations of this kind, which involve the credit of the Secretary of State in Council, should be carried out by local administrations without previous communication with the home authorities. It is far from my wish to impede the action of your Government in any proceedings which may be taken for the purpose of encouraging local enterprise for the improvement of any part of the country, and, so long as they simply involve arrangements which you are competent to make and to carry out exclusively in India, I should deprecate interference; but when, as in this case, a wider scope is given to the negotiations, and capitalists in this country become connected with the scheme through a joint stock company, it seems to me desirable that the confirmation and final settlement of the terms should be left to the Secretary of State in Council. It is not, I trust, possible, with the experience now gained, that a similar case will be allowed by your Government to occur; but difficulties may, in the course of negotiations with projectors, sometimes arise, and the original object become so altered and enlarged as to suggest the settlement of terms with persons out of India. If, therefore, at any time arrangements are proposed which involve engagements on the part of the Secretary of State in Council with parties in England, the previous sanction of the Secretary of State in Council should be obtained to the scheme in all its details.

10. The general financial arrangements involved in the agreements with Messrs. Shaw, Finlayson, & Co., so far as the railways are concerned, have received my approval; and when, by my Despatch of the 26th August 1880, I consented that the 5 per cent. on a capital of 16 lacs, which had been guaranteed for five years, should be extended to 20 years, I concluded that a final settlement had been come to. It was only recently that I became aware of the further important concessions which had been made to Messrs. Shaw, Finlayson, & Co., and which have had the effect of making the company a trading as well as a railway company. Your reason for granting the coal concession was "that the proposed extension from the Dibrugarh and Sadiya main line to Makum might be facilitated;" and you consider that the liberality of the terms is to be justified by the fact that, "from the remoteness of the coal tracts, there was no prospect of rendering these rich deposits available for use by the grant of any less extensive privileges." It is of no avail now to question the expediency of these concessions. The circumstances of Assam may justify exceptional treatment in view to the development of the revenues of the province. But the monopolies granted exceed in duration what I should have thought necessary or desirable; and, as a rule, I should consider it objectionable to combine in the hands of one company the two distinct functions of railway managers and traders.

Page 91.

11. You should certainly exercise your right to withdraw the concessions made, if the company fail to carry out their part of the agreements; and it may be desirable to avail yourself of the power which, under clause 3 of the indenture of 26th May 1880 and clause 4 of that of July 1881, you possess, of passing a Legislative Act, for the purpose of giving effect to the stipulations they contain, and otherwise providing for the constitution, liabilities, and powers of the company.

12. I would only add, in conclusion, that it is with satisfaction I receive your assurance that you "have good hope that real efforts will be made to prosecute, with vigour and sufficient capital, the various projects in contemplation," and that I trust soon to learn that satisfactory arrangements have been made which will enable you to exercise the influence and control over the proceedings of the company, which will ensure a proper regard for the interests of all concerned, and the satisfactory transaction of that part of the business which has to be conducted by the company in conjunction with your Government.

I have, &c.
HARTINGTON.

No. 96.

LETTER from the GOVERNMENT OF INDIA, December 26, 1881, No. 51 (Public Works).

MY LORD MARQUIS,

Page 137.

WE have received your Lordship's Despatch No. 61 Public Works, dated 10th November last, in which we are asked to report the course adopted by us in consequence of the decision expressed in para. 8 of your Lordship's Despatch No. 8, dated 17th February last, in respect to the Swat River Canal Project.

Page 110.

2. The modification of this project so as to satisfy the conditions under which works are classed as "productive" having proved impracticable, we have decided on adopting the alternative left open to us of completing the work from our ordinary resources. We consider, however, that the work has fair claims to being classed as "protective." Among its other advantages, the project is one that would be of great benefit to the country irrigated, in times of famine. Its value as a protective work was fully exemplified in the early part of this year, when, owing to the threatened scarcity in the Peshawar Valley, parts of the canal had to be carried on as famine relief works. Had the canal been in working order, these measures would have been scarcely necessary. We have, therefore, admitted this work into the category of "protective public works," and have sanctioned its continuance at an estimated direct outlay of Rs. 35,45,810.

3. With respect to the treatment of the past outlay on this project, we have to report that, in the accounts of the past official year, we have caused all outlay hitherto charged to the productive public works grant to be transferred to ordinary head of account, 33—Irrigation and Navigation. We may also explain that the provision for the canal under "38—Productive Public Works," in the original estimates of the current year, was made before the receipt of your Lordship's Despatch of 17th February last; but the grant under this head was subsequently withdrawn, and provision was made for the necessary outlay under "31—Famine Relief, Protective Works."

Page 110.

4. The budget estimates forwarded to your Lordship with our Despatch No. 28, dated 8th July, were the estimates originally accepted for the annual financial statement, and consequently did not exhibit the changes subsequently made in the programme of the year.

We have, &c.
DONALD STEWART.
W. STOKES.
A. R. THOMPSON.
J. GIBBS.
T. F. WILSON.

No. 97.

LETTER from the GOVERNMENT OF INDIA, December 26, 1881, No. 161 (Railway).

MY LORD MARQUIS,

IN continuation of our Despatch No. 159 Railway, dated 2nd November 1880, Page 95. reporting the closing of the original estimates of certain State railways, we have now the honour to report that we have ordered the estimates of the following railways to be closed on the 31st March last :—

Cawnpore and Farrukhabad Railway.
Ghazipur and Dildarnagar Railway.
Muttra and Hathras Railway.
Dhond and Manmad Railway.
Patna and Gaya Railway.
Western Rajputana Railway.

We attach a statement comparing the outlay incurred on each of these railways up to the 31st March 1881, with the amounts sanctioned for each project. It will be observed that in no case has the outlay exceeded the amount sanctioned.

2. As the circumstances connected with the construction of the whole line and the working of the sections of the Western Rajputana Railway as opened necessitated considerable changes in the amount of the sanctioned estimate, we have appended a memorandum to the statement showing how the amount entered as the sanctioned estimate is arrived at.

3. The large saving on the Dhond and Manmad Railway is due to the works having been carried out with considerable economy, to all works not needed to meet the traffic of the line having been postponed, and to the transfer of the rolling stock originally supplied for this line to other railways on the working of this line being made over to the Great Indian Peninsula Railway.

4. The system we have adopted, with your Lordship's sanction, of closing the original estimates of each railway shortly after it is opened for traffic, is found to work in a very satisfactory manner, and enables us to exercise a much more efficient control over future outlay than was possible when estimates were allowed to remain open for an indefinite period.

We have, &c.

DONALD STEWART.
W. STOKES.
A. R. THOMPSON.
J. GIBBS.
T. F. WILSON.

No. 98.

LETTER from the GOVERNMENT OF INDIA, January 9, 1882, No. 8 (Financial).

MY LORD MARQUIS,

IN continuation of our Despatch No. 124, dated the 20th April 1880, we have the honour to forward the accompanying correspondence with the Government of the North-western Provinces and Oudh, on the subject of a further concession to the Bareilly-Ranibagh Light Railway Company.

2. It will be seen from Condition VII. in the memorandum of the proposed agreement with the company, which was transmitted with our Despatch of the 20th April 1880, that we agreed to pay to the company a fixed subsidy of Rs. 40,000 a year for a term of 10 years from the date of opening of the line for traffic.

The company now find themselves unable to raise in India the whole capital required for the undertaking, and they will endeavour to raise it in England. But, in order that they may succeed, they consider it necessary that Government should guarantee the payment of interest at 4 per cent. upon the subscribed capital for two years, during which the line will be under construction. The directors ask for this further concession, and they offer to repay the charge to the State, with simple interest at 4 per cent., by an appropriation of one half of the net earnings from all sources in excess of 5 per cent.

3. The Government of the North-western Provinces is prepared to undertake from provincial funds the additional liability which this concession would impose, and we recommend the proposal to your Lordship's favourable consideration.

4. We request that we may be favoured with a reply by telegraph.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 99.

DESPATCH to the GOVERNMENT OF INDIA, January 12, 1882, No. 15 (Financial).

MY LORD MARQUIS,

Page 120.

PARAGRAPH 1. I have considered in Council your Excellency's letter, dated the 5th August, No. 33 (Public Works), in which are discussed certain points relating more particularly to the revenue account of the Ekruk Tank in the Bombay Presidency, but applying also generally to all productive public works.

Page 101.

2. You state that it is now the practice, based on the instructions in my Despatch of the 6th of January 1881, No. 1, to debit the accumulations of simple interest up to the date of completion of the works to the capital account of the project, and thenceforward to record in separate statements the net revenue and the interest charge for each year; and you suggest that, in the case of irrigation works, the date of opening the revenue account may, when the circumstances justify it, be taken as the date on which arrears of accumulated interest should cease to be added to the capital account, instead of invariably continuing these debits to the date of final completion of the works.

3. It appears to me that your Excellency is under a misapprehension regarding the intention of my above-mentioned Despatch. I was therein dealing with the estimates which were required to justify the inclusion of a project in the class of productive public works, and I had not before me on that occasion the question of the manner in which the accounts of such works should be kept.

4. The capital account of public works is designed to show their actual cost, and the cost of land and of establishments is, therefore, properly included; it is, however, otherwise with interest.

5. It will, doubtless, be right to continue to show in a suitable statement the ultimate financial results of all works, and, so long as there remains any amount of simple interest not discharged by the net income of the work, it should be noted in each case. After the interest debt is paid off, the work is freed from such burdens, and all that is necessary is to show the yearly income.

6. It was with these views that the statements were adopted which were sent to your Excellency's Government with my Despatch, No. 6 (Public Works), of the 17th of February 1881.

7. Of the form then sent, Table I. was intended to exhibit an abstract of the capital and revenue accounts of the year, and the interest charge was expressed to be that due on the direct capital outlay. Table II. was intended to show the general financial results of the several undertakings from the outset, and columns 5, 6, and 7 thereof showed respectively the capital outlay, including cost of establishment—the capitalised value of land revenue occupied by the work, leave allowances and pensions—and the accumulated excess of (simple) interest over net revenue in past years. The aggregate of these amounts formed the total sum at charge against the work; but it was inadvertently stated to be at charge "for interest," which words should be expunged from the heading to columns 8 and 13, inasmuch as interest is not to be calculated on it for the purposes of the revenue account, but solely for the sake of showing the ultimate financial position of the work. Taking the total sum expended by the State in capital and arrears of interest, a charge of 4 per cent. thereon is set down in column 9, and compared in columns 10 and 11 with the net revenue of the year, thereby showing the position in which the State stands as regards the annual receipt or charge arising from the work; while, by capitalising the net revenue and comparing the amount with the total sum at charge, the financial result of the undertaking from the beginning is exhibited, as measured by the returns of the year.

8. In short, the instructions given as to the sanction of works must be regarded as distinct from those relating to the forms of revenue account, which in essentials call for no alteration. It may be added that the introduction into these accounts of interest charges as an addition to capital outlay would go far to render all comparison between different classes of work impossible. Up to the present time the published accounts of the returns from productive works have been prepared on the principles now explained, and it had not been my wish to alter them in this respect.

9. From this explanation you will observe that the question raised in your letter regarding the mode of dealing with the accumulations of interest does not arise in fixing the capital account of any work, though it must necessarily be considered when judging either of the estimated cost or of the financial results of a work.

10. As regards the point raised in the last paragraph of your Excellency's letter, I consider that 4 per cent. is the rate of interest which should be applied in the estimates and the calculations of the financial results of productive public works.

I have, &c.

HARTINGTON.

No. 100.

LETTER from the GOVERNMENT OF INDIA, January 16, 1882, No. 15 (Financial).

MY LORD MARQUIS,

IN calculating the interest entered in the profit and loss account of productive public works, which is printed at foot of Abstract II. appended to the financial statement, and also in the statements numbered 72 and 73 in the finance and revenue accounts, the rate at present adopted is $4\frac{1}{2}$ per cent. per annum. The same rate of interest is demanded from provincial governments on capital expenditure from imperial funds on productive public works, the revenues from which are provincial assets.

2. In Financial Despatch No. 1, dated the 6th January 1881, your Lordship has decided that a work can be admitted into the category of productive public works if it is estimated to pay 4 per cent. per annum on the capital expended. Page 101.

3. In accordance with this decision, we propose, with your Lordship's approval, to direct that interest to be charged on capital outlay on works classed as productive public works, as well as in determining the claims of the Imperial Treasury upon provincial governments, shall, till further orders, be calculated at the rate of 4 per cent. per annum, instead of $4\frac{1}{2}$ per cent. as heretofore, with effect from the beginning of the current year.

4. As this change in the rate of interest will effect a reduction of about one ninth in the amount chargeable to provincial governments under the head of 1.—Interest, it is of the utmost importance that the decision should be promulgated before the arrangements for the new provincial contracts, which are now pending, are finally settled.

We have therefore asked your Lordship's sanction to the change by telegraph.

We have, &c.

RIPON,

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 101.

DESPATCH to the GOVERNMENT OF INDIA, January 19, 1882, No. 3 (Public Works).

MY LORD MARQUIS,

PARAGRAPH 1. I have to acknowledge the receipt of your Public Works letter, No. 41, dated the 15th of October last, forwarding revised statements comparing actual results from productive public works with the forecast prepared in 1875. Page 126.

2. The expectations formed in that year of the returns from such works have been far exceeded, the actual net charge to the State on their account for the six years

ended 1879-80 being only 6,527,421 $\frac{1}{2}$., instead of 11,681,337 $\frac{1}{2}$., as was provided for in the forecast of 1875. This great difference is partly accounted for by the imperfect data which then was available for forming a correct judgment on the subject. This must always to a certain extent be the case in respect to railways, subject as traffic is to fluctuations caused by the condition of trade, by weather, and by other causes which it is impossible to foresee. During the years under review there have been famines, war, and a demand for export, which have affected the receipts on lines subject to these influences.

3. It is nevertheless satisfactory to find that the traffic of railways, which had then been established some years, has increased so much more than was anticipated. It speaks well, as you observe, for the future.

4. An analysis of the figures contained in the statements transmitted with your letter shows that the guaranteed lines (including in these the East Indian Railway to the 31st March 1880) have contributed the receipts which show the improved results, while the State railways and irrigation works show actual fallings off, as compared with the 1875 forecast. As regards these two latter classes of works, State railways (excluding from this category the East Indian Railway from the 1st January to the 31st March 1880) fall short of anticipated receipts by 266,467 $\frac{1}{2}$., and irrigation works by 170,368 $\frac{1}{2}$.

5. The disappointment with regard to the State lines may be explained by the fact that the completion of some was unexpectedly delayed, and that it was difficult to estimate the rate of development which would take place. The last two years have furnished results which give hope of early success as respects some of the most important of these lines, namely, the Rajputana and the Rangoon lines, as well as some lines longer established in Bengal.

6. The same difficulty in making reliable forecasts as regards railways applies with greater force, probably, to irrigation works, the use of which depends so greatly upon the seasons, while the absence of sufficient information in respect to such works in the Madras and Bombay Presidencies deprived your Government of the data necessary to prepare complete estimates.

7. The papers as transmitted afford, however, much valuable information, and the labour which you state in your letter has been expended on their preparation will be amply repaid in the guide which their contents should afford in any calculation that it may be necessary to make hereafter, of the probable future development and growth of the railway and irrigation systems of India.

I have, &c.
HARTINGTON.

No. 102.

DESPATCH to the GOVERNMENT OF INDIA, February 2, 1882, No. 42 (Financial).

MY LORD MARQUIS,

127. PARAGRAPH 1. I have considered in Council your Excellency's letter, dated the 22nd of October 1881, No. 270, on the subject of the treatment in the finance and revenue accounts of the expenditure on the Punjab Northern State Railway.

2. The following is the position at present, including the estimated outlay in 1881-82 :—

Section of Line.	Outlay charged to	
	Ordinary Account.	Productive Public Works Account.
	Rs.	Rs.
Lahore to Jhelum - - - - -	—	2,62,51,926
Jhelum to Rawal Pindi - - - - -	1,01,94,700	71,79,294
Salt Branch - - - - -	21,27,252	—
Northern Section - - - - -	2,19,11,715	—
Total - - - - -	3,42,33,667	3,34,31,220

3. This division of the charge has arisen from the different circumstances under which the construction of the line has been undertaken at different periods. In 1868 it was determined to construct as an extraordinary work, that is, a work for which the funds were to be provided from borrowed money, a line of railway from Lahore to Rawal Pindi. On the outbreak of the war in Afghanistan in 1879 it was determined to push on the line to Rawal Pindi at a more rapid rate than had been contemplated previously, and also at once to extend it to Peshawar; but it was laid down that, being incurred for military reasons, that portion of the expenditure must not be defrayed from borrowed money. Hence it has come to pass that the southern section of the railway has been made with borrowed money, that the northern section is being constructed from revenue, and that, for the intermediate portions of the line, the money has been found partly from one source and partly from another.

4. In my Despatches of the 10th and 17th of February 1881, Nos. 60 and 73, Pages 108 and 109. explanations were requested regarding the manner in which the accounts of the line were being treated; and in the former of those two Despatches permission was given to increase the capital account of the main line, by adding thereto the outlay on the Salt branch, while in the later Despatch it was stated that there must be only one capital account, the whole sum at its debit appearing as public works debt, and the yearly receipts and working charges appearing under the productive works portion of the account.

5. Your Excellency observes that the consequence of these orders will be that a very large sum representing non-productive expenditure will be brought on to the accounts as productive public works debt; while, on the other hand, dealing with the transactions of the line under different heads of account will lead to complication and additional expense.

6. You therefore propose to exclude the whole line from the category of productive public works, and to transfer to the ordinary account of expenditure the sum of Rs. 3,34,31,220 which has been spent from borrowed money; and you cite, as a precedent, the case of the Swat River Canal, which you state that, in my Despatch of the 17th of February 1881, No. 8 (Public Works), I directed to "be removed from the Page 110. list of productive public works."

7. I must observe that this is not quite an accurate recital of my instructions in regard to the Swat River Canal. In the Despatch quoted I refused to authorise "the appropriation of further loan funds to the work in its present form," and said that, unless the project could be modified in such a manner as to justify its being treated as a remunerative work, it would "become a question whether the amount already expended should not be recredited to productive public works funds and charged against the ordinary revenue of future years." By such a course the provincial government, which is primarily responsible for the submission of estimates which prove to be fallacious, would be compelled to repay to the central government the money spent from borrowed money under a misconception of the prospects of the undertaking.

8. Such a course is out of the question in the case of the Punjab Northern Railway, both because the money has not been spent under any misconception, but in deliberate pursuance of a certain line of policy, and on account of the magnitude of the sum involved. On the other hand, in accordance with the principle accepted in my Despatch of the 10th of February 1881, No. 60, the portion of the line in respect of Page 108, which the expenditure is debited to the productive works capital account is the only part of which the receipts and working charges should be included in that section of the annual accounts.

9. While, therefore, I recognise the inconvenience of maintaining two accounts for different portions of the same line, I am compelled, in supersession of the instructions given in my Despatch of the 17th of February 1881, No. 73, to direct that the Page 109, accounts of the part debited to productive works shall be kept separate from the rest of the line.

10. In this view, the section from Lahore to Jhelum will be treated as productive, and the northern section as ordinary. Regarding the intermediate sections, I am of opinion that, in consideration of the sanction given in 1868, and the extent of the work done thereon before the orders of 1880 were issued, the line from Jhelum to Rawal Pindi should be treated as productive; and I have the less hesitation in thus deciding, after learning the prospects of this portion of the railway, as recorded in your Excellency's letter of the 27th of May 1881, No. 55 (Railway). The Salt branch may also be treated as productive, in accordance with the sanction given, in my

Page 109.

Despatch of the 10th of February 1881, No. 60, to its being treated as a branch of the main line.

11. It will, therefore, be necessary for your Government, in the account of 1880-81, to transfer from the general debt to the debt incurred for productive public works so much of the sums of Rs. 1,01,94,700 and Rs. 21,27,252 as had been expended up to the close of that year, and to bring to credit a corresponding sum as an extraordinary receipt of the year, in the manner explained in the second paragraph of my Despatch, No. 60, above quoted. All expenditure on the line south of Rawal Pindi, after the 31st of March 1881, will also be debited to borrowed funds; so that, as far as the accounts are concerned, there will practically be two lines, the one from Lahore to Rawal Pindi, with its branch, being treated as a productive work, and the other from Rawal Pindi to Peshawar as a military line constructed out of revenue.

I have, &c.

HARTINGTON.

No. 103.

DESPATCH to the GOVERNMENT OF INDIA, February 2, 1882, No. 6 (Public Works).

MY LORD MARQUIS,

Page 133.

PARAGRAPH 1. Your letter, No. 45, Public Works, dated the 29th October last, submitting the distribution of the outlay which your Government propose to incur on productive public works in the year 1882-83 has received my consideration in Council.

2. Following the course taken last year, and in pursuance of the forecast given in your letter No. 3 of the 12th January 1881, you propose to appropriate 180 of the 250 lacs, which will be included in the estimates for 1882-83, to State railways. The remaining 70 lacs is to be granted for irrigation works.

3. The aggregate of the specific amounts which you have allotted to railways for the next year leaves a balance of $22\frac{1}{2}$ lacs, which you intend to reserve until the actual requirements of each railway are better known.

4. When considering your proposed distribution for the current year 1881-82, the Marmagão scheme had been engaging my attention, and in paragraph 9 of my Despatch No. 1 of the 6th January last, I alluded to the probability of your having to provide money from the funds for productive works for the commencement during 1882-83 of the continuation of the line from the frontier to Hubli and Bellary. This railway has, however, now been placed in the category of protective works, and I learn by your Railway letter, No. 127, dated the 29th October last, that you have given the Bombay Government instructions to proceed with the works as soon as practicable. In the meanwhile it is possible that arrangements may be made with a company for undertaking it. In the event of negotiations being brought to a successful issue, it will be stipulated that whatever sum may have been expended by your Government shall be included in the capital account of the company.

5. Out of the 180 lacs for railways you propose to spend 16 in Bengal, the whole of which will be devoted to the completion of the extensions of the Tirkut Railway to Bettia and Pipra Ghât, in order that they may be opened for traffic before the end of next year.

6. In the North-west Provinces and Oudh, $1\frac{1}{2}$ lacs are to be allotted to the Muttra-Hathras, the Muttra-Achnera, the Cawnpore-Farrukhabad, and Ghazipur-Dildarnagar lines, and $2\frac{1}{2}$ lacs on the first section of the Bareilly-Pilibhit Railway, which is common to that line and to the line to Ranibagh, provided the company, with whom you have been in negotiation for the latter, carry out their project. These proposals have my approval, and, if terms are concluded with an association for working the Rajputana system, together with any of the lines just mentioned, an arrangement with regard to the capital expended shall be made similar to that referred to in paragraph 4.

7. The Amritsar and Pathankot line formed the subject of your Railway letter No. 123, dated 22nd October 1881, and I telegraphed to you, on the 6th December 1881, authority to commence it. The proposal to assign 20 lacs for outlay on it next year is approved.

8. In British Burma you propose to grant 30 lacs for prosecuting the works on the new Rangoon and Tsittoung Railway, for the more complete equipment of the Rangoon and Irawadi line, and for substituting permanent bridges for the present imperfect structures, as well as additional works required to meet the increasing traffic. I have observed with much satisfaction the success to which this line has already attained,

having, in the fourth year after its opening, earned during the last half year nearly two lacs more than the interest, at $4\frac{1}{2}$ per cent., on the capital.

9. In the Central Provinces 10 lacs are required for the Nagpur, Chhatisgarh, and Nandgaon Railway; and I am glad to learn that you expect that the whole of the extension to the last-mentioned place will be so far completed by this expenditure as to enable it to be opened for traffic.

10. On the Punjab Northern, between Lahore and Jhelum, you find that a sum of Rs. 75,000 will be necessary to complete certain works. These proposed appropriations have my approval.

11. With regard to the Indus Valley Railway, you have now come to the conclusion that the bridge over the river at Sukkur is "the most imperative want of the whole of the State railway system of open lines." You accordingly propose to take measures for commencing the work next year. For this, and for ballasting, fencing, and other works on the line, it is estimated that 24 lacs will be required. Further investigation appears to have led to the selection of a different site to that originally proposed for the bridge, which you state can be erected with spans of no great length for a much less sum than at the Sukkur pass. Agreeing with you as to the importance of this work, I have no objection to the necessary steps being taken for preparing the plans, but I should wish to have the opportunity of examining them when they are matured. I request, therefore, that they may be submitted to me, with an estimate of the whole cost of the bridge and approaches, and of the time that will be occupied in constructing them, before any final arrangements are made for carrying them out. The necessary outlay for the year on the other works mentioned is approved.

12. The next appropriation which you propose is 50 lacs for the provision of rolling stock, additional workshop accommodation, staff quarters, offices, &c. on the Rajputana Railway. The demand is founded on the difficulty which has already been experienced in dealing with the traffic, and on your expectation of its early increase. In support of this view, you point out that during last half year the net earnings were Rs. 4,61,588 more than the interest charges for the period. This result is very satisfactory, and I am satisfied from the accounts of working the line which I have received that more stock is wanted. Nor do I doubt the necessity for the other additions to the undertaking. But, with reference to my predecessor's Railway Despatch No. 13 of 5th February 1880, I would direct special attention to the continued growth of the capital account of this railway. Up to the end of the half year ending June last, the expenditure on the lines from Delhi and Agra to Sabarmati amounted to Rs. 5,09,57,787, bringing the mileage cost up to Rs. 70,093. During that half year a sum of Rs. 27,67,134 was expended, and during the current half expenditure has, no doubt, been going on. Fifty lacs are now proposed to be added during the next year, so that by the end of that period it is not improbable that the capital will amount to nearly six crores. I am aware that the line was opened in an incomplete state, and that the traffic has exceeded expectations, and outrun the provision made for it; but continued vigilance is necessary with regard to capital outlay, and I commend the subject to your Excellency's attention, in view to care being taken to sanction only that which is absolutely necessary for the proper conduct of the business of the line, and likely to add to the net receipts of the undertaking at least as much as the interest on the additional outlay. These remarks will be equally applicable, whether the railways are worked as now by the State, or through the agency of a company. With reference to the request in the latter part of paragraph 15 of your letter, I have given instructions for the prompt compliance with your indents for rolling stock. Page 70.

13. You finally propose to make an assignment of Rs. 75,000 for certain works on the Dhond and Munmad Railway, and of Rs. 2,00,000 on the Sindhia Railway to place it in a condition to be worked by the East Indian Railway Company, to both of which I accord my approval.

14. The whole of the allotments above enumerated, including that for the Indus bridge, amount to $157\frac{1}{2}$ lacs, leaving the reserve alluded to in paragraph 3. I should wish hereafter to know how the $22\frac{1}{2}$ lacs which make up this reserve are appropriated.

15. With respect to the 70 lacs for outlay on irrigation works, 10 lacs are assigned to Madras, 3 to Bombay, 14 to Bengal, 20 to the North-west Provinces, and 23 to the Punjab.

16. As regards the Kistna Delta works to which 3 lacs are allotted, I shall shortly address you in a separate Despatch, and I hope that you will before this have received from the Madras Government the revised estimates for the Godavari works, so that no further delay may occur in commencing operations for their enlargement. The

Sungam project has been commenced this year, and the additional four lacs to be expended during 1881-82 will, I trust, enable good progress to be made with it.

17. The Bigari Canal in Sind and the Kadwa project will, I understand, be nearly completed by the proposed expenditure of a lac on each; also the Muta project and the Krishna Canal, on which Rs. 70,000 and Rs. 30,000 respectively are to be spent.

18. In Bengal the expenditure of seven lacs, on the Orissa and six on the Son works, as well as one lac on the Midnapur Canal, will be chiefly for distributaries.

19. The 20 lacs in the North-west Provinces is to be distributed in the proportion of $15\frac{1}{2}$ lacs on the Lower Ganges Canal, three lacs on the Ganges Canal, one on the Eastern Jumna, and $1\frac{1}{2}$ lacs on the Agra Canal. I do not doubt that the money will be well laid out in accomplishing the purposes described in paragraphs 29 to 32 of your letter under reply.

20. In the Punjab a sum of Rs. 16,40,000 is to be expended on the Sirhind Canal, which, I am glad to hear, is to be opened tentatively in March next. Six lacs is also granted for the Western Jumna Canal, to be expended on the new distributaries and the navigable junction from Delhi to the Agra Canal, and Rs. 60,000 is required for the Bari Doab to finish up new distributaries.

21. I have to express my concurrence in all these proposals.

22. The allotment of the 250 lacs for the year 1882-83 accordingly stands thus :—

Railways.						Rs.
Bengal :—						
Calcutta and South-Eastern	-	-	-	-	}	16,00,000
Nalhati	-	-	-	-		
Northern Bengal	-	-	-	-		
Patna and Gaya	-	-	-	-		
Tirhut	-	-	-	-		
North-west Provinces and Oudh :—						
Bareilly-Pilibhit (Provisional)	-	-	-	-	}	2,50,000
Muttra-Hathras	-	-	-	-		
Muttra-Achnera	-	-	-	-		
Cawnpore-Farrukhabad	-	-	-	-		
Ghazipur-Dildarnagar	-	-	-	-		
Punjab :—						
Amritsar-Pathankot	-	-	-	-	}	20,00,000
Punjab Northern (Lahore-Jhelum Section)	-	-	-	-		
British Burma :—						
Rangoon and Tsittoung	-	-	-	-	}	30,00,000
Rangoon and Irawadi	-	-	-	-		
Central Provinces :—						
Nagpur-Chhatisgarh (Nandgaon Extension)	-	-	-	-		10,00,000
Sind :—						
Indus Valley	-	-	-	-		24,00,000
Rajputana	-	-	-	-		50,00,000
Sindhia	-	-	-	-		2,00,000
Bombay :—						
Dhond-Manmad	-	-	-	-		75,000
Total Railways						1,57,50,000
Reserve						22,50,000
Total						Rs. 1,80,00,000
Canals.						
Madras :—						
Godavari	-	-	-	-	Rs.	Rs.
Kistna	-	-	-	-	3,00,000	
Sungam	-	-	-	-	3,00,000	
					4,00,000	
Bombay :—						
Bigari Canal	-	-	-	-		10,00,000
Kadwa project	-	-	-	-	1,00,000	
Muta	-	-	-	-	1,00,000	
Krishna	-	-	-	-	70,000	
					30,000	
						3,00,000

Bengal :—

Orissa project	-	-	-	-	7,00,000	
Midnapur	-	-	-	-	1,00,000	
Son	-	-	-	-	6,00,000	
						14,00,000

North-western Provinces :—

Ganges Canal	-	-	-	-	3,00,000	
Lower Ganges Canal	-	-	-	-	15,50,000	
Agra Canal	-	-	-	-	50,000	
Eastern Jumna Canal	-	-	-	-	1,00,000	
						20,00,000

Punjab :—

Western Jumna	-	-	-	-	6,00,000	
Bari Doab	-	-	-	-	60,000	
Sirhind Canal	-	-	-	-	16,40,000	
						23,00,000

Total - - - - - Rs. 70,00,000

I have, &c.
HARTINGTON.

No. 104.

DESPATCH to the GOVERNMENT OF INDIA, February 9, 1882, No. 27 (Railway).

MY LORD MARQUIS,

PARAGRAPH 1. I have received your Excellency's Railway letter, No. 161, of Page 141.

* Cawnpore and Farrukhabad.
Ghazipur and Dildarnagar.
Muttra and Hathras.
Dhond and Manmad.
Patna and Gaya.
Western Rajputana.

the 26th December last, stating that you have ordered the estimates of the railways enumerated in the margin * to be closed.

2. It is satisfactory to learn that the works have in every case been executed within the estimates, and that, taking the aggregate expenditure on the six railways at Rs. 1,58,64,766, the first cost has been less than the estimates by Rs. 4,11,934.

3. The closing of the estimates does not, of course, mean that future capital expenditure will not be required as the traffic is developed, and as proof is given that further outlay will be immediately remunerative; but I am decidedly of opinion that it is very desirable to adopt, as a rule, the course which has been followed in these cases, and to keep down the original estimates of a new work, so that they may be simply sufficient to supply what is needed in the first instance to bring it into use, and to make the outlay upon it profitable as early as possible.

I have, &c.
HARTINGTON.

No. 105.

DESPATCH to the GOVERNMENT OF INDIA, March 2, 1882, No. 65 (Financial).

MY LORD MARQUIS,

IN reply to your Excellency's letter, dated the 16th of January, No. 15, I have Page 143. to convey to your Government the approval already intimated in my telegram of the same date (sent in response to your inquiry of the 14th January), of your proposal that from the first of April 1881 the rate of interest to be charged on capital outlay on productive public works shall, in the accounts as well as in the determination of claims of your treasury upon the provincial governments, be calculated until further orders at the rate of 4 instead of $4\frac{1}{2}$ per cent.

I have, &c.
HARTINGTON.

No. 106.

DESPATCH to the GOVERNMENT OF INDIA, March 30, 1882, No. 52 (Railway).

MY LORD MARQUIS,

Page 141.

PARAGRAPH 1. I have had before me in Council your letter, No. 8, in the Department of Finance and Commerce, dated the 9th January 1882, on the subject of a further concession to the Bareilly-Ranibagh Light Railway Company.

2. In the first instance you granted to the company a fixed subsidy of Rs. 40,000 a year for 10 years from the date of the opening of the line for traffic; but the directors of the company, finding it impossible to raise the necessary capital in India on these terms, obtained from you the further concession of a guarantee of 3 per cent. on 10 lacs for two years. This, however, having been represented as an insufficient inducement in the English market, they have now applied to your Government for a guarantee at the rate of 4 per cent. upon 24 lacs for two years, while the line is under construction.

3. It is proposed that the charge thus incurred by the State shall be repaid with simple interest at 4 per cent. by an appropriation of one half of the net earnings of the line in excess of 5 per cent.

4. On these terms, and on the understanding that the Government of the North-West Provinces is prepared to undertake from provincial funds the additional liability thus incurred, you recommend that the guarantee of 4 per cent. be conceded.

Page 88.

5. I must first observe that, although since my Railway Despatch on the subject of this project, dated 17th June 1880, No. 57, repeated requests* have been made to your Government for information regarding it, and for particulars as to the terms which you had offered to the company, I was, until the receipt of your letter under reply, in ignorance of the position of affairs. It would appear that since the date of the Despatch above referred to a further concession has been made to the company, and that the case is only submitted to me now in consequence of my sanction being deemed necessary to the increased assistance which you consider it desirable to grant.

6. I beg that your Excellency will issue such directions as will in future secure an early response to inquiries which may be made by the Secretary of State.

Page 125.

7. Your Excellency will recollect that recently I had occasion to address your Government on certain proceedings in connexion with the Assam Railway and Trading Company, and that I then requested that, "whenever any schemes may possibly be offered for public subscription in Europe, you will refrain from committing the Government until the scheme has been definitely approved in detail by the Secretary of State in Council." The present case is another example of the necessity for a strict observance of this rule. You are aware that I am endeavouring to inculcate the policy of encouraging private enterprise for works of public utility in India, without the guarantee of interest on the part of the State; but the application of this principle is hindered by the course which has been adopted, and the length to which negotiations have gone places me in a position of some embarrassment in dealing with the case. The project is a comparatively small one, and I am willing to admit that the advantages to be expected from it are great; at the same time I consider that the engagements which have been already entered into should not have been made without my approval, and I should have hesitated to sanction the terms now recommended, if I did not feel that the withholding of the last concession would have the effect of nullifying the arrangements which, after a lengthened discussion, had been all but completed by your Government. I will not, therefore, at this stage of the negotiations interpose further difficulty by declining to accede to the recommendations by your Government to grant 4 per cent. interest on a capital of 24 lacs of rupees on the terms mentioned.

I have, &c.

HARTINGTON.

* Railway Despatches of 30th November 1880, No. 120, and 5th May 1881, No. 68.

PART II.

CORRESPONDENCE RESPECTING THE PROSECUTION OF WORKS DESIGNED FOR PROTECTION AGAINST FAMINE.

No. 107.

LETTER from the GOVERNMENT OF INDIA, September 16, 1878, No. 354 (Financial).

MY LORD,

IN paragraphs 74 to 86 of Resolution No. 1911, dated 18th March, prefixed to the estimates for 1878-79, we described the system sanctioned by your Lordship's predecessors for the prosecution of large productive public works by aid of borrowed funds, and indicated how this system would continue to be applicable when the financial responsibility connected with such transactions was placed on the local governments, under the recent development of the financial responsibilities of those governments. Page 2.

2. A further consideration of the best means of completing the transfer of the liability for these undertakings to the provincial revenues, which has, as yet, been properly carried out only in Bengal and the North-western Provinces, has led us to think that certain rules are desirable, supplementary to those which already regulate our procedure in regard to works of this description.

3. A revision of this procedure is, moreover, necessary to meet the case of works not in themselves fully productive, but intended to give protection against famine, some of which have actually been begun during the late seasons of distress. The imposition of special taxation to meet the cost of future famines involves us in new obligations in respect to such works, the financial bearing of which it is necessary to consider and provide for. It is manifestly impossible to draw any hard line between expenditure directly applied to counteract famine when it has actually arisen, and that having for its object the prevention of famine in the future, or the mitigation of its consequences if it occurs. Accordingly, in Bengal and the North-western Provinces, a portion of the new taxation has already been virtually appropriated to enable the local governments to bear liabilities previously incurred for irrigation works or railways in those provinces, in course of construction or not yet remunerative, which are calculated to afford protection from famine.

4. When the new taxes were under discussion, it was said that they might be properly expended on works having for their object the prevention of famine, subject to the condition, however, that such works should be remunerative, to the extent of yielding a net income equal to the ordinary rate of interest on the capital laid out on them. It was thus, in a measure, assumed that the works which it would be expedient to undertake in the view to future prevention of famine, or protection therefrom, would be so far remunerative as to bring them within the existing technical definition of productive works; and this condition will probably apply in most cases. But exceptions may occur, and works be proposed the cost of which could not be conveniently met from the ordinary revenues, and the execution of which could not be permitted under the existing rules for the construction of productive works, though it might be desirable on the ground of their certainly giving protection against famine, or tending to prevent its occurrence in an aggravated form. In the 52nd paragraph of his Despatch No. 387, dated 23rd July 1874, while defining, with renewed stringency, the conditions upon which the Government might borrow money for the construction of public works, Lord Salisbury wrote:—

“I do not, however, intend that, in regard to such works as shall be suggested with a view to the prevention of famine, and which may not come within the class of directly remunerative works, you are necessarily to refrain from proposing them, if you should be unable to meet the expenditure from ordinary income; for, in such a case, the works might properly be constructed from borrowed money, the expenditure being included among ordinary charges under a separate head.”

5. The question how to deal with such works has already more than once come before us, and its solution is not altogether easy. It raises difficulties analogous to those which arise, though perhaps in a less marked form, when we have to consider the time within which a projected work may be reasonably expected to become remunerative. Obviously, no work can pay for some time after its completion; and the decision of what time may, in any particular case, be fairly allowed for this, must necessarily be quite arbitrary, just as the estimate of income from any particular work is necessarily, in a great degree, based on conjecture.

6. We have hitherto dealt with these inherent difficulties on our own responsibility. Subject to the approval of the Secretary of State, we have decided, upon a consideration of the merits of each case, whether the risk involved should, or should not, be incurred; and the consequences of any mistake on our part have fallen, or will fall, on the revenues of India. We have, at the same time, protected ourselves against the financial inconvenience likely to be caused by possible miscalculations, by limiting the outlay on which risk is incurred, and by taking care that the growth of the uncovered interest or other charge shall not go beyond the growth of the net income from the works.

7. On the whole, the result of this policy has been satisfactory; there has been a steady addition to works of public utility in all parts of India, and, simultaneously, a sufficient improvement in the aggregate net income yielded by such works, to prevent any increase of the uncovered interest on the capital invested in them.

8. We are of opinion that the extension of these principles to the action of the provincial governments will supply a satisfactory solution of the problem now under consideration, and will provide for the cautious prosecution of all useful works, without altogether excluding the exceptional class which, though inadmissible as productive works strictly so called according to existing definitions, are still much to be desired, as giving protection against famine.

9. It may be argued that such doubtful works might be properly constructed from the special famine insurance taxation, the surplus of one-and-a-half million sterling which the Government is, in connexion with that taxation, pledged to maintain, in ordinary times, being subjected to a corresponding reduction; and, so far as any principle is concerned, this could hardly be questioned. But it is essential that the limited amount of that surplus should not be trenched upon to an extent that will frustrate the main object of its creation, viz., the prevention of any permanent increase of the public debt by reason of the public expenditure upon famines.

10. If the assumption be true, upon which our recent measures were founded, viz., that one-and-a-half million sterling is the amount which it is necessary to secure as a yearly surplus to provide for the cost of counteracting famines, it is plain that, if unremunerative works were carried out under conditions which caused a reduction of that surplus beyond a certain limit, additional taxation would be eventually required to make good the loss. This result would be avoided only if the works were found so useful as, when famine occurred, to cause a diminution of the expenditure which must otherwise have been incurred, for purposes of relief, sufficient to compensate for the cost of the construction and maintenance of the works at other times.

11. But it would be so difficult to make any distinction between works which would probably be sufficiently remunerative to justify their treatment as strictly productive works under the existing conditions, and those which would only be admissible with a view to their ulterior utility in time of famine, that a procedure based on that distinction could hardly fail to be illusory. It would be equally impracticable to determine how much of the capital cost of any particular work might be properly treated as productive, on the ground that interest on that portion of the capital cost would be covered by the *bonâ fide* net income of the work, and how much must be treated as non-remunerative.

12. We are inclined, therefore, to solve the difficulty by falling back upon the principle which, as already described, has governed the past action of the Government of India, namely, to accept a yearly maximum dead-weight charge, to be fixed as experience may suggest, for works constructed as productive, whether under the existing strict conditions, or, as now proposed, in order to prevent famine or give protection from famine, or diminish the expenditure for the counteraction of famine if it occurs. In other words, we would limit to a specific maximum amount the net expenditure for the interest on the capital cost of all such works and their maintenance, after setting off all the net income yielded by the works.

13. The whole sum thus fixed would be distributed between the Government of India (in respect to works for which no provincial responsibility could be enforced) and the local governments, as might appear expedient; and, as regards the future, a

certain portion of this sum would be credited to each government as a clear addition to all its existing resources, to meet the particular charges in question. Having before us the fact that many large works are now in progress, and that it is important to supply, without delay, what further facilities lie within our command for the extension of protective works, we are of opinion that we might, for the next five years, fix 25 lakhs of rupees as the sum, in addition to our existing net liabilities of this class, by which the yearly charge for interest and maintenance on account of all the works in question, new and old, completed or under construction, may exceed the aggregate net revenue obtained, directly or indirectly, from the works. We believe that our famine insurance surplus of one-and-a-half million sterling may be safely reduced by this amount, on the consideration that the construction of any works not fully productive according to the existing definition, which may be thus facilitated, will cause an equivalent reduction of our ultimate liability on account of famines when they occur.

14. In apportioning this additional amount of 25 lakhs of rupees, which would be expended in paying interest on fresh capital to be invested in productive public works, we propose to make it a condition that, as soon as the quota allotted to any province is exhausted, all further capital outlay shall be suspended in that province, until the growing income of the provincial works as a whole once more relieves the provincial revenues and supplies a surplus.

15. We should not allow a local government to appropriate such a grant to any other purpose than that of meeting the dead-weight charge for capital invested in productive works; but, within reasonable limits, any government might meet those charges from its other resources; and it would be incumbent on all to make good from provincial resources any sum by which the charges for their productive works might exceed the special grant-in-aid thus made.

16. We believe that, in this way, on the one hand, the local governments will be provided with the means necessary to enable them to undertake the works which will give the country the best possible protection from famine which such material aids can afford; while, on the other, a safeguard will be furnished against the improvident extension of liabilities for works the remunerative character of which is doubtful, and the financial responsibility which has hitherto rested almost exclusively on the Government of India will be shared by the local governments, in a manner practically useful and conducive to the exercise of forethought and economy.

17. As before observed, inasmuch as the works thus undertaken will give protection against famines or their consequences, and so reduce the burden of our liabilities for this class of expenditure, it will be quite consistent with our pledges to draw from the famine insurance surplus the 25 lakhs of rupees which we propose thus to assign, and no ultimate obligation will thereby be created in excess of what we have already accepted. So far as our liabilities on account of interest are extended, we have already provided, by means of the new taxation, the funds to discharge them, and our financial position will not be endangered.

18. There can be no objection to our applying a portion of the famine insurance surplus, as we propose, in payment of interest on capital, in any case in which the contribution of the capital itself from that surplus would have been justifiable. The interest payment would be, in truth, nothing more than an indirect contribution of the capital itself; and, so long as the general remunerative prospects of the works remained the same, we should incur no greater ultimate risk by giving aid in the shape of an interest payment, than in the shape of a direct supply of capital. In both cases, caution would be necessary; but the prudence which would suffice in the one case would equally suffice in the other.

19. In order to give effect to these proposals, we now ask your Lordship to sanction such a relaxation of the rules under which productive works may at present be undertaken, as to enable us, with the sanction of Her Majesty's Government, to dispense, in special cases, with the strict condition that "the annual income from a work must be estimated to be, within a limited time, equal to the interest charge on its capital cost." If your Lordship agrees to this, then the general conditions relative to the construction of productive public works of both classes will henceforth be as follows:—

I.—No work shall be treated as a productive public work without the sanction of the Secretary of State previously obtained. The Government of India will not ordinarily propose, and the Secretary of State will not ordinarily sanction, the treatment of any work as a productive public work, unless good reason is shown for expecting that the work will yield, within a reasonable time, a direct net yearly income not less than the interest on the money expended on its construction.

II.—As a general rule, no productive work will be sanctioned for construction within any province, except upon the financial responsibility of the provincial government, or without clear evidence that the provincial revenues, supplemented by such special grants as may be made from time to time in accordance with the proposals in this Despatch, will suffice to cover the entire net charge for interest and maintenance arising from the whole of the productive works of the province, including those which, from any cause, may not be self-supporting.

III.—In exceptional cases, the condition prescribed in Rule I. may be relaxed, provided—

- (i) that a work will be unquestionably useful for the prevention of famine or as giving protection therefrom, or that, upon the occurrence of famine, it will probably cause reduction of the public expenditure commensurate with its cost:
- (ii) that the total net yearly charge imposed upon the revenues of India, for the maintenance and payment of interest upon the capital invested in productive works of all classes, after setting off the income they produce, shall not, till the end of 1883-84, exceed the corresponding net yearly charge at the present time by more than 25 lakhs of rupees.

20. We do not at present propose to include the guaranteed railways among the works the net charge for which is to regulate our future expenditure on productive works; but we may hereafter ask for a reconsideration of the limit which we now propose to place on our expenditure on productive works, should we obtain an increasing net revenue from these railways, or should it appear otherwise prudent and expedient so to do.

21. Your Lordship will readily understand that it is our desire, in making these proposals, to be in a position to continue the prosecution of public works of general utility as rapidly as is possible without unduly increasing the burdens now placed on the revenues on this account; and to provide that the natural growth of the income of such works shall, as far as is consistent with other demands, be held to be primarily applicable to their further extension.

22. In conclusion, we think it right to draw your Lordship's attention to the fact that, in the 19th paragraph of this Despatch, we have omitted from our description of the existing definition of productive public works, the condition prescribed in the 49th paragraph of Lord Salisbury's Despatch No. 387, dated 23rd July 1874, that a work, to be admitted as productive, must be expected to yield interest not only upon its actual capital cost, but also upon the interest upon capital for the period subsequent to the commencement of the work during which no income is obtained. We infer that we are justified in omitting this last condition by the general tenor of the instructions contained in his Lordship's Despatch No. 310A., dated 27th September 1877, upon the subject of productive works, and by the modified system under which the financial results of these works are to be exhibited in the public accounts in future.

23. The financial results of public works in India, or elsewhere, carried out by private enterprise, being in no case liable to the application of such a condition, all comparisons between them and the productive works of the Indian Government will be rendered misleading, and in a very mischievous direction, by requiring its retention. The principle that would justify its application at all must lead to its extension to the whole period during which a work did not earn a surplus income equal to the full rate of interest charged on the capital invested in it; and there are few works in any country the capital accounts of which would not have been doubled by the continued operation of such a rule, and rendered apparently unprofitable when, in truth, they were quite otherwise. The East Indian Railway even thus treated might a very few years back have been proved to be a financial failure.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
W. STOKES.
A. R. THOMPSON.
R. STRACHEY.
S. J. BROWNE.

No. 108.

LETTER from the GOVERNMENT OF INDIA, September 16, 1878, No. 355 (Financial).

MY LORD,

WE have the honour to forward, for your Lordship's orders, papers relating to the proposed construction of an irrigation canal on the left bank of the river Nira in the Indapur Taluka of the District of Poona, in the Bombay Presidency.

2. The project is fully described in Colonel Merriman's Report No. 59A., dated 4th January 1877, and is divided into three parts, estimated to cost as follows:—

							Lakhs.
First portion	-	-	-	-	-	-	22 $\frac{3}{4}$
Second „	-	-	-	-	-	-	21 $\frac{1}{4}$
Third „	-	-	-	-	-	-	18 $\frac{1}{2}$
Total							<u>62$\frac{3}{4}$</u>

3. These figures include the charge for interest during construction. Apart from this charge, the cost of the first and second portions of the project may be estimated at 41 lakhs of rupees. The work was treated last year as a famine relief work, and about 2 $\frac{1}{4}$ lakhs of rupees spent upon it.

4. The professional opinions upon the project are unanimous as to its efficiency for the main object in view, viz., the supply of the means of irrigation to one of the least favoured tracts of the Deccan, and as to the adequacy of the estimates. The reports and opinions of the local Public Works officers, and of our own professional advisers, satisfy us of the great value of the projected works to the part of the Bombay territory which they are designed to protect from the frequent effects of drought to which this tract is specially liable. Moreover, the estimated income, reckoned on a basis that seems to be very moderate, appears sufficient to justify the original outlay; though, as is usual in works of this class, a considerable interval must elapse during which a certain charge will be thrown upon the revenues while the irrigation is being developed.

5. We do not lose sight of the fact that the actual growth of the income from the irrigation works hitherto constructed in the Deccan has not been such as was anticipated when they were sanctioned, and that a considerable burden on account of interest on capital not covered by income still remains. But, in the present case, the Government of Bombay has specially undertaken to guarantee the Government of India, from its provincial revenues, against all charges for maintenance and interest on the capital cost of the two first portions of the project to which the Despatch refers.

6. We calculate that this guarantee will impose upon the local government a yearly charge rising to about Rs. 90,000 in the 6th year, and about Rs. 1,50,000 in the 9th or 10th year; after which the dead-weight charge will probably gradually diminish, and eventually be succeeded by a net income in excess of all charges for maintenance and interest on capital.

7. The condition upon which alone we are as yet authorised to propose the exclusion of the expenditure upon any public works from the general account of income and expenditure under the separate head of "Productive Public Works" is,* that it will, within a reasonable time, repay the interest on the money expended on it.

8. But your Lordship will perceive that we are not in a position to affirm with confidence that the Nira project will yield an annual income equal to the interest on its capital cost, while the income is being developed, though we think that it may eventually be able to do so.

9. In our Despatch No. 354 of this date we have submitted, for your Lordship's consideration, certain proposals having for their object a modification of the rules under which sanction may be given, under certain conditions, to works likely to be of value in affording protection against famine, as though they fulfilled the conditions of productive works. The Nira project fairly comes within the scope of the proposed conditions, and we accordingly hereby ask your Lordship's sanction to the construction, as a productive public work, of the first two sections of the project, as described in

Page 151.

* Lord Salisbury's Despatch No. 587, dated 23rd July 1874, paragraphs 47 to 52.- Our reply, No. 135, dated 7th April 1876, paragraphs 24 to 30. Lord Salisbury's rejoinder, No. 305, dated 18th August 1876, paragraphs 73 to 77. Lord Salisbury's Despatch No. 310A, dated 27th September 1877, paragraph 17.

the accompanying papers, at an estimated cost of Rs. 41,46,701, including interest during construction. In case your Lordship sanctions the construction of the work upon these terms, we shall be glad to be informed by telegraph, as the Government of Bombay is very anxious for its prosecution.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
W. STOKES.
A. R. THOMPSON.
R. STRACHEY.
S. J. BROWNE.

No. 109.

DESPATCH to the GOVERNMENT OF INDIA, February 20, 1879, No. 62 (Financial).

MY LORD,

Page 151.

PARAGRAPH 1. I have considered in Council your Financial Letter, dated the 16th of September, No. 354, proposing a modification of the rules under which works may be sanctioned that are intended to afford protection against famine, and asking that, in special cases, the condition may be waived "that the annual income from a work must be estimated to be, within a limited time, equal to the interest charge on its capital cost."

2. In the Marquis of Salisbury's Despatch of the 23rd of July 1874, No. 387, it was laid down that the only ground on which certain works of irrigation and State railways could with propriety be excluded from the general account of income and expenditure, and placed under a separate head of extraordinary, or, as it is now called, productive public works, was that the works included under that head would "prove remunerative, by yielding, in the shape of annual income, a sum equal to the interest on the money expended in their construction, including interest for the period subsequent to the commencement of each work during which no income is obtained." It was, however, added, "in regard to such works as shall be suggested with the view to the prevention of famine, and which may not come within the class of directly remunerative works," that your Government were not "necessarily to refrain from proposing them, if you should be unable to meet the expenditure from ordinary income, for, in such a case, the works might properly be constructed from borrowed money, the expenditure being included among ordinary charges under a separate head." It was further provided that all funds for productive works must be borrowed in India.

3. Thus the principle was distinctly set forth that none but remunerative works were to be included among those the expenditure on which was excluded from the ordinary accounts; and that, while it might become necessary to borrow for the construction of unremunerative works for the prevention of famine, the charge must be included in the regular accounts as ordinary expenditure.

4. Your Government pointed out that, in your opinion, the adoption of these rules might prove inconvenient, and that, as interest on money borrowed had been paid year by year out of the general revenues, and not provided by increasing debt, the expenditure might be continued on the supposition that any "additional interest on account of money borrowed for the purpose of constructing extraordinary works will be met from the increased receipts derived from similar works which have been, or will from time to time be, completed and brought into operation." To this argument, however, Lord Salisbury replied, in his Despatch of the 10th of August 1876, No. 305, that, "if works upon which loan funds have been expended are not remunerative to the extent of repaying the interest on the money expended on them, and additional works be annually undertaken which will be unremunerative in a similar degree, every additional work must tend to increase the annual charge for interest which will fall upon the general revenues." And, bearing in mind the uncertainty regarding the cost of obtaining from India the large supplies needed for the Home Treasury, Lord Salisbury added "that it would be unjustifiable to undertake, out of moneys to be obtained by borrowing, any outlay on account of new works, unless their yield will cover the interest of the loan."

5. This view was accepted by your Government, and Sir John Strachey, in his financial statement on the 15th of March 1877, observed that "it ought clearly to be understood that, if such charges as those for famine and for unremunerative public works cannot be provided out of the ordinary revenues, the state of our finances must be unsound." "It cannot be too distinctly stated that charges for the relief of famine must be looked upon as ordinary charges." "For the future, it has been resolved, in communication with the Secretary of State, that no work shall, under any circumstances, be classed as extraordinary, unless we are satisfied that it will yield a net income sufficient to cover the interest upon its capital cost."

6. It had been laid down by Lord Northbrook in 1874, "that, besides a fair surplus of income over ordinary expenditure, such a margin should be provided, in addition, in ordinary times, as shall constitute a reasonable provision for meeting occasional expenditure upon famines;" and, in referring to the subject in the debate of the 27th of December 1877, Sir John Strachey mentioned the argument of Lord Northbrook, "that, if this surplus were devoted to the reduction of debt, or to preventing the increase of debt for the construction of reproductive public works, in years of ordinary prosperity, there would be no objection to the public expenditure exceeding the public revenue in occasional years of adversity, so that we might then, without objection, meet the charges on account of famine from borrowed funds, to the full extent to which our surplus had permitted the discharge of debt, or prevented its increase."

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7. The cost of the famines was estimated, on an average of years, at about 1,500,000*l.*, and provision was made for meeting this expenditure by measures of financial decentralization and by new taxation. "The Government of India," said Sir John Strachey, "intends to keep this million and a half as an insurance against famine alone; . . . we consider that the estimates of every year ought to make provision for religiously applying the sum I have mentioned to this sole purpose; and I hope that no desire to carry out any administrative improvement however urgent, or any fiscal reform however wise, will tempt the Government to neglect this sacred trust."

8. On the 9th of February 1878, Sir John Strachey explained in greater detail the mode by which it was proposed to deal with the additional sum raised to meet the famine expenditure. It being a portion of the policy of the Government to borrow certain sums annually for the construction of reproductive works, this amount would be reduced, and the annual addition to the public debt would be proportionately diminished, by the appropriation of the million and a half raised for famine purposes, so that, when on the occurrence of a famine it became necessary to borrow, the amount of the debt would remain no higher than if the receipts to meet the famine expenditure and the corresponding outlay had not been brought into the account. "The soundness of this argument," he observed, "depends of course on the assumption that the works which are constructed from our annual contribution of 1,500,000*l.* from the public revenues will be really reproductive, that is, that they will at the end of the ten years produce an income at least equal to the interest which we should have to pay, if we had then to replace by borrowing a sum equal to that furnished from the new taxes for their construction." Arrangements were to be made with the local governments, throwing on them to a great extent the responsibility of protecting the people from famine in the manner prescribed; "the provincial revenues," he stated "will have to supply to the Imperial Treasury, or to hold at its disposal year by year, a sum equal to the interest on the capital expended on all the reproductive works, constructed either with borrowed money or funds supplied for the new taxes." In this mode, said Sir John Strachey, the 1,500,000*l.* to be provided as an insurance against famine would be applied "virtually to the reduction of debt; and, when the calamity of famine actually arrives, we hope not only to be able to meet it without throwing fresh burdens upon the country, but to find that our means of giving efficient relief have been immensely increased by the useful works which we have carried out in the preceding years of prosperity."

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9. These views were repeated, in almost the same words, in the letter from your Government, dated the 4th of January 1878, No. 7; and a general approval of your proposals was given by Lord Salisbury, in his telegram of the 12th of January, and again in his Despatch of the 1st of April last, No. 104, in which, however, he observed, that "it is necessary that, whenever the demand for bills and the state of the exchange will admit, the sum which has been provided from the Home Treasury to meet famine expenditure should be repaid from the million and a half which is to be raised annually on account of famines."

Page 188.

Page 217.

Page 290.

10. With the view of carrying into effect the policy on which you had determined, your Government published in the Gazette of India Extraordinary for the 18th of March a Resolution, No. 1911, defining the method in which it was to be put in operation through the agency of the local governments. "It will manifestly be a necessary condition of success," it was observed,* "in carrying out such a policy, that the works undertaken shall in fact produce the growing income from which to meet the gradual increase of interest charge; and it therefore becomes essential to examine very strictly the character of all projects brought forward for execution, so that borrowed capital shall not, under any circumstances, be supplied for any work of which it cannot reasonably be anticipated that it will in a definite period of time produce a net income at least as great as the interest on the capital outlay upon it. Further, the same limitation . . . must also be applied to . . . the new resources lately specially created to provide a surplus from which to meet charges on account of the relief or prevention of famine." "The justification for granting, for productive works, funds from the surplus revenues which might otherwise be applied to the extinction of debt, is that, so far as it prevents an increase of debt, it will virtually be equivalent to a corresponding discharge of debt, a condition, however, that cannot be fulfilled unless the works are properly remunerative." The "dead weight of interest charge during the time when the income of the works is not fully developed" might, however, "properly be met from the provincial revenues at the disposal of the local governments for carrying out works of internal improvement."

11. These are the conditions which, in the letter now under my consideration, your Excellency proposes to modify, in order to complete the transfer of the liability for productive public works to the provincial revenues, and to meet the case of works not in themselves fully productive, but intended to give protection against famine, some of which have actually been begun during the late seasons of distress.

12. You explain that, in sanctioning the execution of a work from borrowed money, the cost of which was to fall on the general revenues of the country, you have hitherto, subject to the sanction of the Secretary of State, decided on the merits of each case whether or not the risk of constructing it should be incurred, with reference to the period within which it might be reasonably expected to become remunerative; and you are of opinion that this principle may be extended to the action of the provincial governments. At the same time you observe that, if unremunerative works are carried out from the money provided for the cost of counteracting famines, under conditions which reduce the surplus so provided beyond a certain limit, additional taxation will be eventually required to make good the loss. But, owing to the difficulty of discriminating between works strictly productive and those only admissible as providing against the effect of famine, you propose "to accept a yearly maximum dead-weight charge, to be fixed as experience may suggest, for works constructed as productive, whether under the existing strict conditions, or, as now proposed, in order to prevent famine, or give protection from famine, or diminish the expenditure for the counteraction of famine if it occurs. In other words," you "would limit to a specific maximum amount the net expenditure for the interest on the capital cost of all such works and their maintenance, after setting off all the net income yielded by the works."

13. This amount you would for the next five years fix at 25 lacs of rupees in any one year, in addition to your "existing net liabilities"; and you think that the famine insurance fund of one million and a half sterling may be safely reduced by that sum, on the consideration that the construction of any works not fully productive according to the existing definition, which may be thus facilitated, will cause an equivalent reduction of your ultimate liability on account of famines when they occur.

14. In this manner you believe that the local governments will be provided with the means of undertaking works for protection against famine, while a safeguard will be furnished against the improvident extension of liabilities for works of which the remunerative character is doubtful, and the financial responsibility, which has hitherto rested almost exclusively on the Government of India, will be shared by the local governments, in a manner practically useful and conducive to the exercise of forethought and economy.

* Paragraphs 76-79.

15. With this view, you request sanction to a relaxation of the rules under which productive works may at present be undertaken, so that, in exceptional cases, works may be included in that class which are not directly remunerative, provided—

“ 1. That a work will be unquestionably useful for the prevention of famine or as giving protection therefrom, or that, upon the occurrence of famine, it will probably cause reduction of the public expenditure commensurate with its cost ;

“ 2. That the total net yearly charge imposed upon the revenues of India, for the maintenance and payment of interest upon the capital invested in productive works of all classes, after setting off the income they produce, shall not, till the end of 1883-84, exceed the corresponding net yearly charge at the present time by more than 25 lacs of rupees.”

16. I have given a most careful consideration to this important question, and regret that I am unable to give my consent to the modification proposed. At the time that your letter was received, Sir John Strachey was in this country, and, with the advantage of the personal explanations received from him, I was in hopes that I might have been able, even if not sanctioning the proposal in the exact form made by your Government, to have sanctioned arrangements which would have been accepted by you as satisfactorily meeting your desire to proceed rapidly with the construction of protective works.

17. The events of the last few months and their effect on our financial position have, however, compelled me to reconsider the question of public works expenditure, and I propose to address your Excellency in another Despatch on this subject. In the meantime, however, I deem it necessary to express the opinion that the present condition of the finances does not justify any loan for outlay on protective works, or any expenditure on them beyond what may be met from the receipts from the special taxation recently imposed.

18. The first claim on these receipts being that of the Home Government for the repayment of debt already incurred on account of famine, I am of opinion that not less than one half, or say 750,000£., should be held available for remittance to England in the next and ensuing years on that account. The remainder may be appropriated, at your discretion, to the extinction of debt, to the relief of famine, or to the construction of protective works, not necessarily directly remunerative, but obviously productive in the sense of guarding against a probable future outlay in the relief of the population. I cannot, however, under present circumstances, sanction the raising of capital by loan, for the construction of works which do not distinctly fall under the regulations laid down for productive public works.

19. To guard against misapprehension, I deem it necessary to draw attention to a statement in the concluding paragraphs of your letter, that you have omitted from the definition of productive works the condition prescribed in the 49th paragraph of the Despatch of the 23rd of July 1874, that they must be expected “ to be remunerative “ by yielding, in the shape of annual income, a sum equal to the interest on the “ money expended in their construction, including interest for the period subsequent “ to the commencement of each work during which no income is obtained.” This omission you infer that you are justified in making by the tenor of Lord Salisbury’s Despatch of the 27th of September 1877, No. 310 A. In that Despatch, which directed that the term productive should be adopted instead of extraordinary, and that the results should be exhibited in a new form, it was expressly stated “ that no change “ is intended to be made in the character of the works henceforth to be admitted into “ this category.” For the inclusion of any work in the productive class, it is necessary that there should be a prospect of its repaying, within a reasonable time, the whole of the interest incurred on the money expended in its construction, though it is immaterial whether the interest which accrued during the process of construction be treated as a charge against the income of future years, or be added to the capital on which interest is to be paid.

I have, &c.

CRANBROOK.

No. 110.

DESPATCH to the GOVERNMENT OF INDIA, March 27, 1879, No. 15 (Public Works).

MY LORD,

Pages 151
and 155.
Page 156.

PARAGRAPH 1. Of your Financial Letters, Nos. 354 and 355, both dated 16th September 1878, the former was replied to by my Financial Despatch No. 62 of the 20th February last.

2. By this last-mentioned Despatch, and with reference to the proposed modification of existing rules respecting productive public works, which would have allowed works not coming under the description of directly remunerative works calculated to afford protection against famine to be classed as "productive works," and therefore to be constructed with borrowed money, I conceded that one half of the annual proceeds of the special taxation for famine insurance purposes should be applicable, at your discretion, to the extinction of debt, to the relief of famine, or to the construction of such protective works, not necessarily directly remunerative, as you desired to provide for.

3. In your other letter, No. 355, of the 16th September last, sanction was asked to the construction, at an estimated cost of about 41½ lacs, of two portions of the Nira Canal project, in the Bombay Presidency, as being one to which the proposed modification of the existing rules would apply.

4. The work in question may, indeed, according to the description given of it, be regarded as one calculated to afford protection against famine, and as coming under the class to which you are authorised, in my Financial Despatch just quoted, to devote a portion of the revenue derived from the proceeds of the new famine taxation.

5. But, after repeated consideration, I am unable to regard the Nira Canal, a work at once so costly and of so little promise in revenue, as one that it would be expedient to undertake under the conditions sanctioned in that Despatch.

I have, &c.

CRANBROOK.

No. 111.

LETTER from the GOVERNMENT OF INDIA, September 25, 1879, No. 313 (Financial), paragraphs 8 to 11.

See No. 29, page 52.

No. 112.

DESPATCH to the GOVERNMENT OF INDIA, November 13, 1879, No. 444 (Financial), paragraph 11.

See No. 34, page 63.

No. 113.

LETTER from the GOVERNMENT OF INDIA, June 8, 1880, No. 184 (Financial).

See No. 52, page 77.

No. 114.

LETTER from the GOVERNMENT OF INDIA, August 17, 1880, No. 263 (Financial).

See No. 56, page 89.

No. 115.

DESPATCH to the GOVERNMENT OF INDIA, September 2, 1880, No. 299 (Financial), paragraph 5.

See No. 59, page 93.

(161)

No. 116.

DESPATCH to the GOVERNMENT OF INDIA, November 18, 1880, No. 384 (Financial).

See No. 65, page 96.

No. 117.

DESPATCH to the GOVERNMENT OF INDIA, January 6, 1881, No. 1 (Financial), paragraphs 11 and 16.

See No. 69, page 101.

No. 118.

EXTRACTS from the FINANCIAL STATEMENT for 1881-82.

See No. 155, page 322.

No. 119.

EXTRACT from a DESPATCH to the GOVERNMENT OF INDIA, April 28, 1881, No. 61 (Railway).

18. In the 13th paragraph of your letter you refer to my Despatch of the 2nd September in the Financial Department, No. 299, as containing an allusion to a probable additional allotment on protective public works of about 75 lacs annually, as soon as your finances can bear the charge. That Despatch merely pointed out that the permission to spend certain receipts in the construction of protective works, which was given in Lord Cranbrook's Despatch of the 20th of February 1879, No. 62 (Financial), did not apply to the whole "famine insurance surplus," as appeared to have been assumed in the letter from your Government of the 8th of June 1880, No. 184 (Financial), but was limited to one half of the sum of 1,500,000*l.*, required to be annually devoted to the purposes of famine insurance. By my telegram of the 8th of March, your Excellency was directed to insert in the budget 1,500,000*l.* for famine relief, protective works, and payment to Commissioners for reduction of debt, and my Despatch of the 14th instant, No. 135 (Financial), contains in the eighth paragraph a statement of the conditions under which your proposal was sanctioned. You have therefore now to consider what works have the best claim on your attention.

No. 120.

EXTRACT of LETTER from the GOVERNMENT OF INDIA, April 30, 1881, No. 97 (Financial).

WITH reference to the remarks contained in paragraphs 57 and 58 of the financial statement for 1881-82, we have now the honour to request your Lordship's sanction to include in the category of protective public works the following projects:—

Irrigation Works.

	Rs.
1. Mhaswad Tank, Bombay Presidency, estimated cost-	18,15,771
2. Nira Canal, Bombay Presidency, estimated cost	39,77,355
3. Betwa Canals in North-western Provinces, estimated cost	27,50,000

Railways.

4. Extension of railways in Madras—Bellary to Hospet and New Hubli on metre gauge, approximate estimate	75,00,000
5. Branch from Hudgi, viâ Bijapur, to Gadak, on metre gauge, approximate estimate	1,30,00,000
6. Extension of Rajputana Railway on metre gauge from Rewari to Hissar, approximate estimate	34,00,000

(47.)

X

Page 160.

2. Of the above, the only one which has been before Her Majesty's Government in full detail is No. 2, which in Despatch No. 15P. W., dated 27th March 1879, your Lordship's predecessor declined to admit into the category of productive public works, remarking at the same time that, according to the description given, the work might be regarded as one calculated to afford protection from famine, and as coming under the class of protective public works.

Page 96.

3. In your Lordship's Despatch No. 384 Financial, dated 18th November 1880, sanction was conveyed to an expenditure of $5\frac{1}{4}$ lakhs to complete a portion of this project; but this portion does not include the storage reservoir, without which the supply of water would probably fail in a dry year just when most required. We therefore consider that the project should be carried out to completion with storage, and request your Lordship's sanction to this, at an estimated cash outlay amounting to Rs. 39,77,355.

4. The details and estimates of the other schemes are being prepared for consideration before submitting them for your Lordship's approval.

5. No. 1 project is situated in the Satara district (not far from No. 2, which lies in the Poona Collectorate) on the highland of the Deccan, where the distress during the late famine was very severe and widespread. It is a work of similar character to the Ekruk Tank in the adjoining Sholapur district, without which, it is stated, the town of Sholapur must have been deserted during the late famine. Like the Nira Canal project, it was commenced as a famine relief work.

6. The Famine Commission recommend caution in prosecuting irrigation works in this part of India, if they are to be justified by financial success; but they state that a considerable portion of the most endangered part of the province has been protected from future famine by the existing works, and recommend the construction of others of similar nature in special cases as a further protection.

7. The Betwa scheme is one of those projected for Bundelkhand in the North-western Provinces, and is specifically alluded to by the Famine Commission as one of the projects about which there "is no question as to what their value would be in times of famine."

8. Regarding the line of railway between Bellary-Hospett-New-Hubli, we have the honour to invite your Lordship's attention to our Despatch No. 68 Railway, dated 25th May 1880. The total distance is about 125 miles, and the approximate estimated cost is 75 lakhs, which includes an extensive bridge over the Tungabhadra river. A portion of this line, $38\frac{1}{2}$ miles long, between Bellary and Hospet, was commenced during the late famine in Madras, and a considerable quantity of the earthwork and bridging completed. There is little likelihood of this line paying in itself, but it will act as a valuable feeder to the Mormugao-Hubli Railway, and will exercise a marked influence on a district so subject to scanty rainfall and scarcity. This line will, of course, be on the same gauge as that decided on by your Lordship for the Hubli-Mormugao line, viz., the metre.

9. As regards the Hudgi-Bijapur-Gadak project, the line would start from the Hudgi station of the Great Indian Peninsula Railway, run through Bijapur, and meet the Bellary-Hubli line at Gadak, 36 miles east of New Hubli. No complete estimate of the line has yet been made; it would be about 163 miles long; and, as it crosses a considerable amount of the drainage of the eastern slope of the Western Ghats, the mileage estimate for a metre-gauge line will not be under Rs. 80,000. This gives a sum of Rs. 1,30,00,000 for the whole project. Estimates for that part of this line between Hudgi and Bagalkot, 106 miles, are now under preparation by the Bombay Government; and it is expected that closely approximate estimates will be ready early in May. The portion of this line from Hudgi to Bijapur was commenced in the late famine, and the earthwork was nearly completed on this length of 60 miles. Altogether about $3\frac{1}{2}$ lakhs has been expended on this work. This line would also render valuable aid as a feeder to the Hubli-Mormugao Railway, and will eventually fall in as a part of the system of railways in the Southern Marhatta country, contemplated in your Lordship's Despatches referring to the Hubli-Mormugao Railway. The available information regarding this line is already before your Lordship,—*vide* enclosures to our Despatch No. 3 Railway, dated 3rd January 1881; and we may mention that both this line and the Bellary-Hubli line are mentioned in Part II. of the Indian Famine Commission's Report, as measures of protection and prevention which ought to be undertaken.

10. The Famine Commission also stated that improved transport is wanted between Delhi and the districts to the north and west of that city. A reconnaissance survey for a line of railway through that part of the country has just been made, and we are

inclined to think, from the information now before us, that this communication can best be made by running a branch on the metre gauge from the Rewari station of the Rajputana Railway, through the important trade centre of Bhiwani, to Hansi and Hissar. This line would be about 84 miles in length; and, running through a country where few bridges and only light works are needed, its ultimate cost should not exceed Rs. 40,000 per mile, making a total for the whole length of about 34 lakhs. A detailed survey of this project is now being made, and will be reported on in due course. This line would eventually be continued towards Firozpur, passing through Sirsa, and probably just skirting to the west the territory of Faridkot and other native states.

No. 121.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, June 30, 1881, No. 29
(Public Works).

PARAGRAPH 1. I have received and considered in Council your Excellency's Letter, Page 161. No. 97, in the Department of Finance and Commerce, dated the 30th April, requesting my sanction to include certain irrigation and railway works in the category of protective public works; also your letter in the Railway Department, No. 47, of the 14th May, regarding the proposed line of railway for the districts west of Delhi, and your letter, No. 18, Public Works, of 27th idem, reporting provisional sanction to the execution of the first two stages of the Nira Canal at a cost of Rs. 39,77,355.

2. The irrigation works consist of:

- (1.) Mhaswad Tank, in the Satara district, "in the highland of the Deccan, where " the distress during the late famine was very severe and widespread." It has been commenced as a famine work, and is of the character of those which the Famine Commission recommend should be constructed in the province as a protection against future famines.

The cost is estimated at Rs. 18,15,771.

- (2.) The Nira Canal, which is in the neighbouring district, and formed the subject of my Despatch in the Financial Department, No. 384, dated the 18th November 1880. The expenditure of 5½ lacs then sanctioned to complete a portion of the work you now propose to increase to Rs. 39,77,355, in order that the storage reservoir may be provided to make the whole project really serviceable at times when most needed. Page 96.
- (3.) The Betwa Canal, which is one of those projected for Bundelkhand and specially recommended by the Famine Commission, the cost being estimated at Rs. 34,00,000.

3. Of these three works, I sanction the Nira project as a protective work, but I await your report on the details and estimates of the other projects before extending this approval to them.

4. The railways proposed are—

- (1.) The line from Bellary, in continuation (on the metre gauge) of the Madras Railway, to Hospet and New Hubli, at an approximate estimate of Rs. 75,00,000;
- (2.) A branch from the Great Indian Peninsula Railway at Hudgi via Bijapur to Gadak, on a metre gauge, at an estimated cost of Rs. 1,30,00,000.
- (3.) The construction of a line on the metre gauge, commencing at Rewari, on the Rajputana Railway, and proceeding to Hissar, at an estimate of Rs. 37,00,000.

5. Progress has already been made with the earthwork and bridging of a portion of the first of these lines, and in my Despatch in this Department of the 28th April, No. 61, paragraph 20, I suggested that operations should be continued. I have therefore no hesitation in according my sanction to it. I also approve of the commencement of the Hudgi-Bijapur line; but, with reference to the point of junction with the Great Indian Peninsula Railway, I would observe that there are obvious objections to a junction of different systems being effected at an insignificant station like Hudgi, especially when the construction of a few miles more of railway would bring the line into a large commercial mart like Sholapur. The proposal to make Hudgi the junction was, moreover, made when it was designed to construct the extension on the broad gauge; but, now that it is to be part of a narrow gauge system, it seems

of the highest importance, even at the cost of abandoning some earthwork already constructed, that the break of gauge should be at the large town of Sholapur, instead of at the village of Hudgi. This point therefore will require your reconsideration.

6. The proposed railway from Rewari on the Rajputana Railway, through Bhiwani, to Hansi and Hissar, is 84 miles in length, and will supply communication such as that pointed out by the Famine Commission to be desirable in the districts north-west of Delhi. You will have seen by my Despatch in this department, No. 61, dated the 28th April last, that I considered some such line as this to be deserving of your early consideration. I accordingly sanction the proposal contained in your Railway letter of the 14th May, No. 47, to commence the line as far as Hissar, reserving for future consideration its continuation to Firozpur. I would, however, remark that it is plainly of the greatest importance that the works should be carried out with the strictest attention to economy, and the exclusion of everything that is not essential, as the country passed through is comparatively poor and thinly peopled.

* * * * *

10. The whole estimated cost of the works above sanctioned is Rs. 3,24,43,121, and you state that you have other projects under consideration, which you will submit for approval when the details and estimates have been prepared. I need hardly observe that operations will have to be so regulated as to keep the expenditure within the prescribed annual limits for works of this description.

No. 122.

LETTER from the GOVERNMENT OF INDIA, July 1, 1881, No. 172 (Financial).

MY LORD MARQUIS,

Page 161.

WITH reference to our Financial Despatch No. 97, dated 30th April last, we have now the honour to submit, for your Lordship's approval, the project for the Mhaswad Tank in the Bombay Presidency as a "protective" work, and to request the sanction of Her Majesty's Government to the estimate, amounting to Rs. 18,15,771, for direct outlay, and, including Rs. 2,98,050 for indirect charges, to a grand total of Rs. 21,13,821.

2. The project consists of an earthen dam 9,000 feet in length, with a maximum height of about 80 feet, across the Mán river at the village of Rajehwari; the reservoir thus formed will have an area of about $6\frac{1}{4}$ square miles, and will contain rather more than 3,000,000,000 cubic feet of water, of which it is calculated that nearly 2,500,000,000 will be available for storage; and, allowing for evaporation, something more than 1,600,000,000 will be available for irrigation. The water is to be led off from the lake by a canal discharging 175 cubic feet per second for a distance of about 12 miles, whence it will be passed through a tunnel 800 feet in length into the valley of the Bhima river; thence down a natural watercourse to a convenient point, where it will be turned by a weir into another canal 17 miles in length to the point where irrigation will commence.

3. Work was begun on the project during the famine relief operations in 1877; and again in 1879 the Government of Bombay was compelled to reopen the works for the same purpose; the puddle-trench has in this manner been completed; one million cubic feet of earthwork has been done on the embankment, and a length of two miles of the canal channel has been excavated. Up to the end of 1879-80 the direct capital outlay amounted to Rs. 3,51,449, exclusive of the amount charged off to famine expenditure.

4. The gross area commanded by the works will be 252,402 acres, of which there would be water sufficient to irrigate 23,450 acres, distributed over 56 village estates. The supply of water, though not derived from the monsoon rainfall on the Ghats, is yet shown to have been sufficient even in the driest year on record down to 1876.

5. The gross revenue to be expected is according to the chief engineer's calculation Rs. 1,20,700, which, deducting Rs. 23,450 for maintenance charges at Re. 1 per acre, would leave a net balance of Rs. 1,03,750, or 4.89 per cent. on the total outlay, Rs. 21,13,821; doubts are, however, entertained by the revenue officers, both as to the extent to which the water will be utilised and as to the rates that can be levied for it; and the returns are estimated by the Revenue Commissioner at no higher than $3\frac{1}{4}$ per cent.

6. But, though there are doubts as to the amount of direct return from the outlay, the revenue officers one and all agree as to the great benefit that the country is likely to derive from the completion of the scheme; and the Revenue Commissioner states that in very few localities will extensive irrigation confer greater benefits than in the country below the proposed works.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

No. 123.

LETTER from the GOVERNMENT OF INDIA, July 22, 1881, No. 92 (Railway).

MY LORD MARQUIS,

THE report of the Famine Commissioners has, as we have already informed your Lordship in the Home Department, been for some time engaging our earnest attention; and, among the many branches of the wide and diversified question with which it deals, one of the most important is that which relates to the construction of public works intended to secure increased production and protection against famine. It is true that the report shows conclusively that measures of one kind alone will not suffice to guard us against the many and great mischiefs which result from a serious famine. The evil with which we have to deal is a many-sided one, springing from a variety of causes, to each of which appropriate remedies must be applied, before the people of India can obtain the utmost security against the worst consequences of scarcity which it is in the power of a government to afford. But it is obviously desirable to deal separately with each portion of a subject so varied; and we think that there is no part of it more ripe for consideration than that which concerns railway communication. It is upon this question, therefore, that we now desire to address your Lordship.

2. The Famine Commissioners speak clearly as to the very great use of railways in removing some of the chief dangers of famine, and lay down that a certain minimum mileage of protective lines, in addition to those which now exist, is necessary for the security of the country. What we have consequently practically to consider is, how the required extension of our railway system can be most speedily and satisfactorily carried out.

3. The history of railway construction in this country is too well known to your Lordship's advisers for it to be necessary to relate it here in detail. Our policy on this subject has passed through various phases. We began with the system of guaranteed private enterprise inaugurated by Lord Dalhousie. After a lengthened trial, succeeded by an abortive attempt to encourage the expenditure of private capital by means of subsidies, this system was condemned by Lord Lawrence in a Minute which he left behind when he retired from the Viceroyalty, and in which he expressed his preference for the plan of State railways constructed by Government with borrowed money. His successor, Lord Mayo, adopted this plan, and pushed it on with energy and vigour. But after a time strong objections were felt, especially at home, on financial grounds, to unlimited borrowing for public works; and of late years successive Secretaries of State, acting in accordance with the recommendations of a Committee of the House of Commons, have placed numerous restrictions upon the railway expenditure of the Government of India. Those restrictions embrace limitations as to the amount to be borrowed, and stringent conditions as to the remunerative character of the largest portion of the works to be undertaken; and the result is that, practically speaking, as will be presently shown, 50 lakhs a year is all that is now at the disposal of our Government, for the construction of those lines of railway which do not fulfil the conditions prescribed by your Lordship for productive works, but which are, nevertheless, of the greatest importance in their bearing upon the prevention of famine, both directly as channels for the importation of food into vast and populous districts, otherwise inaccessible to supplies from other parts of the country in times of scarcity, and indirectly as developing natural resources now

latent, and giving rise to new industries and to the diversity of occupations created by an enlarged trade, to which we must look as an important safeguard against famine.

4. Your Lordship has permitted us to spend a sum of 75 lakhs on protective works during the current year, with every prospect of a like sum being devoted annually hereafter to the same purpose. This grant has to be divided between railways and irrigation works; and, while we consider that at the present time the construction of railways is especially important, we desire to proceed with works of irrigation to the utmost extent compatible with the resources at our command. The extension of irrigation on a scale of sufficient magnitude to sensibly affect the food-supplies of the country at large in time of drought is, however, a task which, your Lordship has ruled, can generally be most efficiently undertaken by State agency; and this condition places a limit on our efforts in this direction, which is speedily reached. Without a very great increase to the establishment of the irrigation branch of our Public Works Department—an increase which could only be effected by degrees and at great cost,—we cannot calculate on being able to spend with reasonable advantage under this head more than between 90 and 100 lakhs annually; that is, about one third of the amount of the protective grant, in addition to the share of the productive grant now allotted every year for irrigation. Setting aside 25 lakhs annually for this purpose, there remain only 50 lakhs per annum available for the construction of our protective railway system—a sum which, on an average, will suffice to provide us with about 400 miles of metre gauge railway in the course of every five years over which the operations may extend.

5. The Famine Commissioners estimate roughly the minimum extent of lines still necessary for the substantial protection of the country generally at about 5,000 miles; and of this we have strong grounds for believing that at least 3,000 miles will have to be constructed for protective purposes, there being no sure prospect of their yielding such a return within a reasonable time as to lead to their being classed, under the rules prescribed by your Lordship, as productive works, or as would be likely to tempt private capitalists to undertake them without State aid in some form.

6. What we are immediately concerned with is, how these 3,000 miles of new railway are to be constructed. If we are only to devote some 50 lakhs annually to this purpose, it is clear that the work cannot be completed, and the desired protection secured on the most economical system, under about 30 years; that is to say, a whole generation will have passed away before the minimum of railway protection is afforded to the populations of some of the districts of India most liable to famine. This is not a state of things which we can contemplate with satisfaction; and it seems to us that it is our duty to take every means in our power to escape from it.

7. Any considerable increase of taxation, even for so laudable an object as the prevention of famine, is, as experience has amply shown, a matter of very great difficulty in India, and gives rise to serious discontent. We look upon it as quite out of the question to attempt to obtain by fresh taxation any such sum as would be required for the construction of the 3,000 miles of protective railway which we have in view in the course of the next four or five years; while the recognised policy of Her Majesty's Government and of Parliament, to which it is our duty to adhere, precludes us from raising the sum required by way of loan. Nor, if we had the money, whether obtained by fresh taxation or by borrowing, do we believe that it would be possible to do justice to the work in that time by departmental agency alone, the numerical strength of our railway establishment, like that of the irrigation branch, being at present inadequate to bear so severe and sudden a strain.

8. Under these circumstances, and in the present financial position of India, we have no hope of being able to effect what we urgently require, without a delay which it is of the utmost importance to avoid, except by entrusting our railway works to private enterprise under a safe and reasonable guarantee.

9. We are not insensible to the objections which may be urged against anything in the nature of a return to the system which was so decidedly condemned by Lord Lawrence and Lord Mayo; but it seems to us that the evils of which they complained were the result, not of a resort to private enterprise, but of the conditions of the bargains which were formerly made with the guaranteed companies. In this respect we stand in a much better position than Lord Dalhousie and his successors, because we have, to guide us, the results of a practical experience, which was wanting to them. But, further than this, we have a peculiar advantage at the present moment for making another trial of private enterprise, in the existing state of the money market and the

amount of money now seeking investments. We have thus an opportunity for inducing capitalists to invest in public works in India, such as, we believe, has seldom, if ever, existed before, and of which, in our judgment, it would be prudent to take early advantage, in order to obtain the acceptance of terms of guarantee, which, while giving the capitalist security for the small rate of interest his money can command in the open market, shall not unduly burden our revenues.

10. We are not at present prepared to lay before your Lordship the details of all the schemes for the 3,000 miles of protective railway we have in contemplation. All the information available in regard to them is being collected; and instructions have been issued by us in our Public Works Department for careful reconnaissances to be made of such of the proposed routes as have not already been surveyed, as soon as the season will permit of parties taking the field. The Appendix to this Despatch shows, in such detail as we can at present give, the character and scope of our protective railway proposals.

11. Our principal object at present is to recommend to your Lordship that private capitalists should be invited to undertake the construction of these lines, upon a guarantee of interest limited both in amount and in duration. We do not think that it would be advisable to lay down any detailed rules as to the terms to be offered, as the prospects of early returns from the different lines must necessarily vary greatly according to the nature of the country through which they pass. It seems to us that each concession should be dealt with by itself and on its own merits, as we desire to make such arrangements as may be least burdensome to our finances, and as will give the companies the greatest possible interest in the successful and economical working of their lines. We should in all cases prefer a lower rate of interest for a longer term of years, to a higher rate for a shorter term.

12. It appears to us that the interest to be paid under this scheme may fairly be charged against the 75 lakhs a year which it has been determined to devote to the construction of protective works; and it is in that manner, therefore, that we propose to provide the funds required for this purpose. By adopting this course, we shall keep strictly within the limits of public works expenditure prescribed by your Lordship, to which we are most desirous to conform our action; and we therefore trust that we may look to receive at as early a period as may be possible your sanction to the principles of public works policy, which, after very careful consideration, we have the honour to submit to your Lordship.

13. Our honourable colleagues, Mr. Rivers Thompson and Major Baring, wish to add some remarks in separate Minutes, which will be transmitted by the next mail.

We have, &c.

RIPON.

D. M. STEWART.

W. STOKES.

RIVERS THOMPSON.

J. GIBBS.

E. BARING.

T. F. WILSON.

Enclosure in No. 123.

APPENDIX.

THE scheme referred to in the accompanying Despatch regarding the construction of a series of railways as famine protective works consists of what may be described as five systems of lines on the metre gauge, comprising a total length of about 3,083 miles, the construction of which, it is estimated roughly, would cost about 1,835 lakhs of rupees, or 15,300,000*l.* sterling at the exchange of 1*s.* 8*d.* per rupee.

I.—The first system may be called the Nagpur-Bengal-Madras system. Orders are now issuing to the Governments of Madras and Bengal and to the Chief Commissioner of the Central Provinces to put in hand the necessary reconnaissances on which more complete estimates could be framed.

II.—The second system can be called the Southern Marhatta and Eastern Madras system. An approximate estimate of the cost is given below. The scope of this system has been already communicated to the Secretary of State in the Despatch from the Financial Department, No. 134, dated 3rd June 1881.

III.—The third system, designed to protect the districts of Sarun, Gorakhpur, and the northern parts of Oudh, from famine, is now under survey. The line is intended to start from the north bank of the Ganges opposite Patna, near the mouth of the river Ganduk, and to be taken past Chapra, Sewan, and Gorakhpur, to Balraich. It will be about 400 miles in length; and, as it traverses very similar country to that in which the Tirhut Railway extensions are now being constructed, the estimate for it may be taken at a similar rate, or at Rs. 50,000 a mile.

IV.—The fourth system, called the Rewari-Firozpur system, is designed to afford protection to an area of country peculiarly liable to drought. This line is also now under survey; it will start from Rewari on the Rajputana Railway, and be taken viâ Bhiwani, Hansi, and Sirsa, to Firozpur; its length will be about 300 miles; and, as it passes through a singularly easy country, its cost may be taken at Rs. 42,000 per mile. The construction of this railway has already been approved as a protective work.

V.—The Bundelkhand system. The total length proposed is about 560 miles, and its estimated cost 349 lakhs of rupees, and the general scope of this system is shown in the accompanying map.

The length and estimated cost of the several systems are as follows:—

	Miles.		Rs.
I.—	1,063	costing	644 lakhs
II.—	760	"	516 "
III.—	400	"	200 "
IV.—	300	"	126 "
V.—	560	"	349 "

giving a total mileage of 3,083, at a roughly estimated cost of 1,835 lakhs.

This rough estimate includes, however, only what are called the direct charges. The indirect charges are not taken into account, excepting the loss by exchange on the permanent way materials.

The accompanying map indicates generally the directions and location of the lines proposed in green colour.

No. 124.

LETTER from the SECRETARY to the GOVERNMENT OF INDIA in the PUBLIC WORKS DEPARTMENT, July 29, 1881, No. 565.

SIR,

AGREEABLY to the statement made in paragraph 13 of Government of India Railway Despatch No. 92, dated 22nd instant, I am directed to forward copies of Minutes by the Honourable Rivers Thompson and the Honourable Major Baring.

I have, &c.

ALEX. FRASER, Major-General, R.E.,
Secretary.

Enclosure 1 in No. 124.

MINUTE by the HONOURABLE RIVERS THOMPSON, July 26, 1881.

It is in no sense from any wish to dissent from the proposals of the Despatch of the 22nd July 1881 that, with his Excellency's permission, I venture to add the following remarks. So far as they go, the recommendations of that Despatch have my cordial support, but there are in it certain points in which it seems to me our recommendations might have been stronger and have gone much further.

We are here considering, in the light especially of the Famine Commission's report, proposals which concern exclusively the construction of railways as works of protection against famine. It may be said, of course, that any line of railway that we could undertake in India, whether productive or protective, by opening out the country and developing its resources, operates to the diminution of the risks attendant upon famine. But still, as the Despatch of the Secretary of State of the 6th January last very clearly establishes, there is a wide distinction between these two kinds of railway projects, both as regards the principles which are to guide us in the expenditure upon them, and the object for which they are to be constructed; and this distinction affects directly the reference which we have now made to the Secretary of State. A line of railway which will pay its 4 or 5 per cent. within a few years of its commencement comes within the class of productive works, to be considered, under the latest instructions from England, upon commercial principles. For the construction of such lines private enterprise may be invited, as projects to which capital from home or locally may possibly be more or less attracted. And in such cases not only does it seem to me that pecuniary guarantees are unnecessary, but it appears reasonably open to question whether, in the interests of India, the State should not reserve such lines which have fair remunerative prospects

absolutely in its own hands. This question, however, does not arise in the present instance. If it did, I should not be prepared to admit the wisdom of a policy under which the Government should make over all its carefully selected paying lines to private enterprise, and construct all the unproductive lines by State agency. Rather than this, and for the benefit of the Indian taxpayer, I contend that it would be much better that Government should keep the construction and management of all lines in its own hands, so that the profits from the good lines may be taken as a set-off to the losses upon the bad; while, if all railways in India are eventually to be profitable—a possibility which all recent returns would apparently justify,—the retention of such a property in the hands of the State seems to me in the financial position of India to be of the greatest importance.

For the present, however, as I understand the reference, the question is restricted to the consideration of the best means for securing the early completion of purely protective lines of railway; and, having regard to the real magnitude of this task, and the difficulties which have hitherto beset it, I have no hesitation in supporting the proposition that, if we are to do our duty to India in our efforts to secure it against famine, and to give effect to the urgent recommendations of the Famine Commission, there must be a change in the principles on which we are now making railways in this country. It requires no argument to show that, as long as we are limited to an expenditure of 2½ millions a year for the construction of productive public works by borrowed capital, and to a State prosecution of protective works, including irrigation, by direct expenditure which cannot exceed Rs. 75,00,000 a year (the half proceeds of the famine insurance taxes), the outcome must be not only altogether incommensurate with the general requirements of the Government and of the country, but so tardy in its process that we run the serious risk of being overtaken in some quarter or another by the very evil which it should be the paramount duty of the Government to anticipate and prevent. If we could be assured against the recurrence of famine for twenty years, there possibly might be many advantages in the deliberate procedure which the limited capital at our disposal imposes upon us. But, if we may balance against the Parliamentary Committee's recommendations of a slow and steady progress in railway extension the facts which the Famine Commission's report, after inquiries in nearly every part of India, places before us, the conclusion is irresistible that, if we are to be prepared to meet very great emergencies, our advance in railway construction must be something much more rapid and thorough than our present policy permits.

In the Despatch to which reference has been made as laying down the principles by which our railway construction expenditure is to be based, it is ruled that protective works which are unremunerative are to be constructed out of revenue; and in the 11th paragraph of that Despatch the Secretary of State says: "It appears to me that the appropriation of 750,000*l.* out of 1,500,000*l.* of "insurance taxation for famine purposes will be sufficient for this purpose." Our contention is, as represented in paragraphs 5 to 8 of the Despatch of July 22nd, that under such a limitation it is quite impossible to provide adequate security against a great evil. The tracts of country which the proposed railways have to traverse are to be regarded more from our administrative exigencies and difficulties than from any other point of view; and, if India needs railways in such places to the extent of 3,000 miles, and if the direct outlay upon their construction is restricted to an amount which will complete about 80 miles per year, we incur a grave responsibility by adhering to a self-imposed difficulty. The readiest solution is afforded by a modified system of guarantee; and our proposal is—though it is scarcely enforced with sufficient emphasis in the 12th paragraph of the Despatch—that, in the place of allotting and spending 50 lakhs annually for the purpose under direct State agency, we should engage private enterprise to do the whole work at once on a guarantee limited to a certain number of years, the said guarantee being met by the 50 lakhs at our disposal. The idea seems to me eminently practical, and without any serious risks of financial embarrassment; and, having regard to the objects which the famine insurance policy contemplated, it presents, without any infringement of the conditions under which the famine insurance taxes were imposed, the most satisfactory escape from a great difficulty.

It is as well to recall the fact that that policy had for its object, by means of an annual surplus of 1½ millions, to place India in the position of being able to borrow 15 millions to expend on the prevention or mitigation of famine every ten years, without any increase to the aggregate of her debt on that account. The manner in which, under Lord Cranbrook's orders, the distribution of this 1½ millions is regulated, while it directs that one moiety of it should be applied to the reduction of debt in England, leaves to the discretion of the Government of India the appropriation of the rest, for the extinction of debt, the alleviation of famine, or the construction of protective works. This proposal has so far found acceptance with the Government of India, that it has laid down that, while the first object to which this money should be applied is the relief of actual and existent famine, the second should be the construction of protective works, which, though not directly remunerative, are needed to prevent a probable future outlay in the relief of the population. Now the whole of these arrangements had their origin in the knowledge which had been acquired, after great and frequent calamities from scarcity, of the regular periodical recurrence of famines in India; and the whole object of the financial and legislative measures which followed upon this experience was for the relief, mitigation, or prevention of famines. I do not question that, if a famine was to arise in any year in a tract of country unapproached by a railway, it would devolve at once upon Government to devise measures for the succour of the population by the importation of food. But certainly, if we have learnt anything by the labours of the recent Commission, it is that, except in the most emergent cases, the form of such relief would not be gratuitous; and the very fact of the occurrence of a famine in any particular place would direct attention to the necessity of such works in that locality as would afford protection against future similar desolations. Our true famine policy, in a word, is to bring the foodgrain to the doors of the people, and to make them independent of agriculture for their incomes, so that they may have the means of buying food when crops fail locally: and we do this much more

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effectually by promoting railways, which while under construction support the people, than by charitably feeding them when emergencies arise from the failure of harvests. In the one case at least we get the railway for our outlay; and in the other not only no permanent benefit to the country, but rather an impoverished population, taught to lean more than ever upon the aid of Government in their difficulties. Even if it be objected that this money cannot be diverted from its primary purpose in the relief of actual famine, it is scarcely necessary to point out that the present proposal affects only half of the amount raised under the license tax and the public works cesses, and in the pressure of impending or existent famine the remaining moiety (which it is proposed to reserve for the extinction of debt) would be available for the promotion of direct measures of relief. The principle then upon which the suggestion of appropriating to this purpose the famine taxes rests appears to me incontestably sound; and, if it is sound, I would go further and say that, so long as the money market is as favourable as it is now, and the prospects of the season are good, it might with every advantage be extended to the whole of the million-and-a-half raised as an insurance against the risks of famine in India. When there is a threatening of famine, a year's warning is generally available, before there is any actual pressure upon the finances.

There is another point to which I would draw attention. It is not unlikely that we may have to meet the contingency of failure in our plans, by the unwillingness of capitalists to undertake some of the railways under notice, even with a Government guarantee. In such a case I conclude the Government, in view of the humane and wise policy of safeguarding the country against the miseries and costs of famines, would not abandon such projects. But, when private enterprise fails us, we, as a Government, should be placed in the same, or possibly worse, difficulty as regards the means at our disposal for protective railways; and in such circumstances I can see no objection to the procedure under which the Government should utilise a portion of the 750,000*l.* to pay interest on the capital borrowed for the construction of such railways by the State itself. The principle is the same, whether the money be used in payment of guarantees or in the payment of interest; and the object is the same in both cases, namely, to provide the readiest means by which an emergent want to India can be supplied in the quickest possible manner. The limitation of our borrowing powers to 2½ millions, and that especially as regards productive works under a system of State construction, was influenced chiefly by the consideration that India was incurring very great liabilities which her financial condition did not justify; but the Secretary of State, in maintaining this rule of limitation, recognised it as one of only temporary force, which he would be ready to reconsider at a fitting opportunity. The present condition of our finances, with the prospects of an exceedingly bounteous rainfall throughout the country, seems to me to present this opportunity; while the idea which is now before us of employing the proceeds of the famine insurance taxation to secure capitalists to make the railways, or (as I would add) to secure the capital to enable us to make them ourselves, removes, without drawback or disadvantage, the main difficulty which pressed upon the Committee of the House of Commons. We may be quite certain that in a vast continent like India no one policy will equally suit all times and all places, and it would be wiser on our part if, recognising this fact, instead of binding ourselves to a single system of procedure, we invoked private enterprise, under reasonable subsidies, to supplement rather than to supplant all State efforts in the construction of our railways. I contend that it is a fallacy to conclude that, in the conditions of this country, the rejection of railway schemes by private capitalists is any ground for their rejection by Government.

Apart from these considerations, no one can fail to notice and deplore the difficulties which have arisen from the continued changes in our railway construction policy. From guaranteed railways to partially subsidised private enterprise,—from the latter to State railways constructed on borrowed capital, and the intermediate changes which have been rung upon the responsibilities of local governments to pay interest upon the advances made to them,—there has scarcely been for five years consecutively any unity of purpose or finality of system. Outside of all this, even as regards the Government plan of administration, from the creation of a minister of public works to the appointment of a director, there have been within the last ten years no less than five different forms of management of our railways; and the wonder is not simply that the whole business has not collapsed, but that the Public Works Department is able to show, notwithstanding these fluctuations in the Government policy and its indecision of purpose, the good results which we actually have in the extent and progress of railways in the country. If we are always to be looking behind the screen of the juggler to see how his mango-tree is growing, we may be assured of his discomfiture; and for my own part I am optimist enough to believe that, if the Home Government would sanction our proposals on the lines of these suggestions, and would leave us alone for ten years to carry them out, we should within that time have not only provided every security against the worst effects of famine, but should have promoted very extensively the prosperity and happiness of the people of India.

RIVERS THOMPSON.

Enclosure 2 in No. 124.

MINUTE by the HONOURABLE E. BARING, July 25, 1881.

Page 165.

1. SAVE on one point, to which I will presently allude, I concur generally in the Public Works Department Despatch No. 92 (Railway) of July 22nd, 1881. As, however, the subject of which it treats is one of great financial importance, and one to which I have devoted a great deal of attention, I should wish to add some further observations beyond those contained in the Despatch.

2. In dealing with this question, the first point which, I think, should be borne in mind is, that, so long as all railways are constructed by the State, the words "productive" and "protective" have special technical meanings, and that a hard-and-fast line separates the two categories of works. By a "productive" work is meant, in so far as railways are concerned, an undertaking which can be

Secretary of State's despatch, Financial, No. 1 of January 6th, 1881, paragraph 8. estimated to pay, "within a maximum limit of five years from the date of the line being opened for traffic, 4 per cent. on the capital invested, including therein all arrears of simple interest incurred up to that date, and also the capitalised value of the land revenue and of leave allowances and pensions." Such a work may be constructed out of borrowed money. By a "protective" work is meant an undertaking

Secretary of State's despatch No. 62 of February 20th, 1879, paragraph 18. "not necessarily directly remunerative, but obviously protective, in the sense of guarding against a probable future outlay in the relief of the population." Such a work may not be made out of borrowed money. The capital expenditure requisite for its construction must come out of revenue.

3. When private enterprise is substituted for State agency, the words "productive" and "protective" lose, to a great extent, their special technical meanings. No question arises as to whether the works in question are to be made out of money borrowed by the State, or are to be paid for out of current revenue. It is no longer necessary to draw a hard-and-fast line between "productive" and "protective" railways. Any railway, it may be assumed, even although avowedly made to protect the country against famine, will, to a certain extent, be productive in the ordinary, although perhaps not in the technical, sense of the word; that is to say, it will pay some per-centage on the capital laid out in its construction. The aspect of the question is, therefore, somewhat changed. The point to be decided in each case is no longer merely whether a particular line falls into the productive or protective category,—that is to say, whether it will or will not pay 4 per cent. in five years,—but to what extent it is likely to prove remunerative, and, consequently, on what terms private capital may be expected to undertake its construction. If the line in question presents such prospects of remuneration as would justify its construction by the State as a "productive" work, we ought to be able to get private capital to take it up without any State aid. If the line, although necessary for protective purposes, presents very poor prospects of remuneration; it is probable that its construction through the agency of private enterprise will be impossible, save under conditions which would be very onerous to the State. In such cases it will probably be desirable to continue the system of State construction, the capital outlay being found out of revenue. Between these two extremes a considerable variety of cases may present themselves, in respect to which the degree of State aid will vary according to the remunerative character of each particular work. Such aid need not necessarily take the form of guaranteeing a rate of interest. It may be found possible in some cases to enlist private enterprise by means of State aid which shall fall short of giving a guarantee. Thus the surveys may be made free of cost. The land may also be granted free. In some cases grants of waste land or mining rights may be accorded to a company. I should be very reluctant to give any guarantee, until it had been placed beyond all doubt that nothing short of a guarantee would ensure the construction of the line. But, if any guarantee is given, I think it should be on a fixed amount of capital, and should only extend over such a period as will enable the line to be constructed, and possibly in some instances, where the line passes through a country in a very backward state of development, for four or five years longer. In the event of the undertaking proving a failure, the full brunt of the failure should eventually fall on the company. The shareholders should look forward to a time, which should not be far distant, when the undertaking would be wholly self-supporting. Unless this principle be borne carefully in mind, they will not have that direct interest in the economical working of the line on which the Secretary of State rightly lays so much stress (Financial, No. 1, January 6th, 1881, paragraph 2). It is no doubt very desirable that our railways should be constructed rapidly. Until they are constructed, we must remain more or less exposed to all the worst effects of famine in the unprotected districts. Further, a rapid extension of the railway system is unquestionably the best means to ensure the development of the country, and notably to bring about that increase in the export trade which, for a variety of reasons, is so much to be desired. The desirability of enlisting private capital in Indian railway enterprise is now almost universally recognised.* It is, I think, pretty generally admitted that the circumstances under which the problem of railway construction in India may now be approached are materially different from those which obtained in 1869, and that the moment has arrived to reconsider the policy which was then adopted. If the capital cannot be raised on the exclusive security of the success of the undertaking, we may very properly fall back on the modified guarantee system, to which the Secretary of State alludes in the second paragraph of his Financial Despatch No. 1 of January 6th, 1881. But, in adopting this course, we must be very careful not to lapse again into the evils of the old guarantee system. Those evils were fully described in the correspondence which passed between the Government of India and the Secretary of State in 1869. I need not at present dwell upon them. I would, however, observe that not only, if we give too liberal terms to private companies, shall we take away from them their principal incentive to economical administration, but we shall incur the danger which is thus stated by the Famine Commissioners: "The obstacles that stand in the way of the investment of English capital in India, such as the climate, the distance, and the want of exact knowledge of the country, are still very great, and it may be feared that the disinclination to risk such investments has been rather increased than diminished by the system of giving a guarantee of interest at a high rate on the large capital of the great railways. So long as the opportunity was afforded to capitalists to make advantageous investments on a large scale on the security of the State, the inducement to attempt any enterprise without such security must have been greatly diminished."†

* See, *inter alia*, Lord Lawrence's Minute of January 9th, 1869, paragraph 11; Secretary of State's Despatch (Financial) No. 267 of July 31st, 1878; Report of the Select Committee of the House of Commons on Public Works, page xix.; Mr. Caird's letter to the Secretary of State of October 31st, 1879; Government of India Despatch to the Secretary of State, No. 38 of 8th June 1880, paragraph 15; Report of the Famine Commission, Part II., page 171; Secretary of State's Despatch, No. 1 (Financial) of January 6th, 1881, paragraph 2; and Financial Statement for 1881-82, paragraphs 81-91.

† Report, Part II., page 175. See also some remarks made in the same sense by Mr. Rathbone in a debate in the House of Commons on 12th June 1879.

4. As regards the possibility of substituting private for State agency in the construction of railways in India, it is to be observed that we are now, to some slight extent at all events, better informed than we were a few months ago. We now know that it is possible to attract first-rate English capital with a 4 per cent. sterling guarantee for five years, with the condition that the money advanced shall be repaid from the half-earnings in excess of 5 per cent., and the further condition that the Government reserves a right of purchase, on favourable terms, after the lapse of thirty years.

5. The original intention as regards the Jessor Railway, which formed the basis of the negotiations before I left England in last November, was that no guarantee whatever should be given. Subsequently a guarantee for five years was given; and more favourable terms of purchase were obtained for the State. For my own part, I should have preferred to have relaxed the terms of purchase and to have given no guarantee; but I am not at all dissatisfied with the bargain as it now stands. It is urged that the case of the Jessor Railway is exceptional, inasmuch as the undertaking promises to be more remunerative than most railways in India, and that, therefore, we cannot hope to get other railways made on such favourable terms. There may be some force in this argument, but it is impossible to say on what terms we can get the railways made until we try. I would, however, observe, as a consideration which to some extent counterbalances the argument based on the specially remunerative character of this railway, that the undertaking was altogether a novelty, and that considerable mistrust had heretofore prevailed as to the remunerative character of any Indian railway. It is not at all improbable, now that a start has been given under the auspices of so well known a firm as Messrs. Rothschild, that greater facility than heretofore will be found in raising the capital for similar undertakings. The numerous offers which during the last few months have been received, testify to the interest which has been awakened on the subject.

6. The experience of the past affords the best test which can be applied to the prospects of railway enterprise in the future. General Trevor's Administration Report (p. 333) shows the total amount of railway capital invested in India up to the end of 1879, together with the per-centage of profits on capital expenditure in the case of each railway. Major Filgate has been good enough, at my request, to add the figures for the year 1880. I append the completed statement to this Minute (A).

7. It appears from this return that, up to the end of the year 1880, 128,000,000*l.* had been invested in railways in India, of which 102,000,000*l.* belonged to the guaranteed companies (including the East Indian Railway), 24,000,000*l.* had been invested in State railways, and 1,300,000*l.* in railways constructed in the native states.* Taken as a whole, the railways were paying in 1880 within a very small fraction of 5 per cent. on the capital outlay. The guaranteed railways paid 5·63 per cent.; the State railways 2·43 per cent.; the railways in the native states, 1·81 per cent. In the case of the guaranteed railways, the average rate of interest may fairly be taken as showing the general result. Most of these lines have been open to traffic for a long period. Only three of them are paying less than 4 per cent.,—namely, the Oudh and Rohilkhand (3·28 per cent.), the Madras Railway (1·77 per cent.), and the South Indian Railway (2·23 per cent.). But in the case of State railways the average is deceptive as a guide to future action. The capital expenditure on the Calcutta and South-eastern Railway (about 664,000*l.*) is included in the account. It may reasonably be assumed that a project of the nature of this line will not again be undertaken. Also, the Punjab Northern and Indus Valley Railways were avowedly undertaken for strategical purposes. Further, some of the lines are not yet completed, and others have been only very recently completed. It is to be observed that the Northern Bengal Railway paid during the year 1880 3·20 per cent., the Tirhut line 4·49 per cent., the Patna and Gaya line 6·56 per cent., the Muttra and Hathras line 5·30 per cent., the Rajputana line 3·62 per cent., and the Rangoon and Irawadi Railway 4·23 per cent. I think it would be a good thing if the Public Works Department would cause to be drawn up in a concise form explanations in respect to the period at which each of these lines was commenced, their present stage of construction, with some further observations of a similar nature. If the table I have given in the Appendix, together with some explanations of the nature I suggest, were widely circulated both here and in England, it would, I think, be useful, as it would show investors the sort of prospect to be derived from embarking in railway enterprise in India. I am, of course, aware that there are numerous and very valuable reports on this subject. What, however, appears to me to be required is some short statement giving the leading facts, which will attract greater attention than the more voluminous reports intended for Government.

8. It appears to me that the figures given in this statement indicate that, although very large returns cannot, for the present, be expected from Indian railways, at the same time a fair prospect of moderate remuneration can be held out. I am aware that it is frequently said—and perhaps with truth—that, the main lines having now been constructed, any further branches must be expected to be comparatively unremunerative. I would point out, however, that the profits of the Patna-Gaya and Muttra-Hathras lines seem to indicate that there is a fair field for remunerative branches, whilst the Northern Bengal and Rangoon and Irawadi Valley Railways appear to show that altogether fresh fields of railway enterprise may profitably be developed. On the whole, the conclusion to be drawn from these figures is, I think, that we may, with a moderate amount of State aid, hope to attract railway capital to India.

9. In the 12th paragraph of the Despatch under consideration, it is proposed that any charge which shall be incurred on account of guaranteed interest in respect to the particular works mentioned in the Appendix attached to the Despatch, should come out of the 750,000*l.* a year, which it has been determined to devote to the construction of protective works. I venture to doubt the advisability of following this plan.

* These figures exclude the capital expenditure on the southern section of the Western Rajputana line.

10. It is to be borne in mind that the first object to which the whole sum of 1,500,000*l.* provided as an annual insurance against famine is to be applied is the relief of famine itself. This has been considered an essential part of the policy ever since the time it was first enunciated by Sir John Strachey. It was authoritatively reiterated in the financial statement for the current year (paragraph 68), and in our Despatch to the Secretary of State, No. 30 of the 2nd February 1881, in which we dwelt on the general question of famine insurance. In the Secretary of State's reply (Financial, No. 135 of April 14th, 1881, paragraph 8) he states, in speaking of the application of 750,000*l.* a year to protective works, that "at any time when it may become evident that outlay will be needed in the actual relief of the people, it will, of course, be requisite for you to consider to what extent it may be necessary to restrict the grant for protective works, as for any other portion of your expenditure." If the famine grant, to the extent of 500,000*l.*, is locked up in the payment of guaranteed interest, it is clear that, when famine arises, the money for relieving it must, to the extent of 500,000*l.*, form an additional charge on the revenues of the year. It is perfectly true that, when famine actually arises, we must, in some way or other, find the funds for relieving it; and it may be said that it is a mere matter of account whether those funds, to the extent of 1,500,000*l.*, are, in the first instance, found from the annual grant entered under the head of "famine relief, &c.," whilst guaranteed interest is charged to another head of account, or whether the guaranteed interest is systematically charged to famine relief, &c., and the whole of the sum requisite for relief purposes, when actual famine occurs, is treated as an addition to the annual grant. Further, it may be said that, until actual famine occurs, the course proposed in the Despatch would be financially convenient. The money requisite to provide the guaranteed interest would not constitute any addition to our normal annual charges. But the whole question of the application of the money to be devoted to famine insurance has created so much controversy, and the arrangement which has now been made is so very recent, that I deprecate any further change, more especially as it does not appear to me that any change is absolutely necessary. The money required can, as I shall presently show, be found without touching the annual famine grant.*

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11. This, however, is an argument based, to a great extent, on political expediency. But other arguments may, in my opinion, be adduced against the course proposed in the Despatch.

12. I am of opinion that the whole, or at all events very nearly the whole, of the 750,000*l.* to be devoted to protective works should be spent on irrigation and not on railways. My reason for entertaining this opinion is, that, unless we devote this sum of 750,000*l.* to the construction of canals and tanks, it appears to me very probable that these works will not be constructed at all. Without going into the vexed question of the degree of importance to be attached relatively to railways and irrigation works, it will, I imagine, be generally admitted that the latter, considered by themselves, are of very great importance. Mr. Caird, in his letter to the Secretary of State of October 31st, 1879, has pointed out the great desirability of increasing the area of cultivable land in India. "The greatest difficulty," he says, "with which the Indian statesman is confronted is over-population, with constant increase; and his first and main duty will be to carry out a policy under which the people will be enabled to provide themselves with food. Every other consideration should be subordinated to this." Since Mr. Caird wrote these remarks, the census returns have shown that the population is rapidly increasing. Whilst, however, the desirability of carrying out works of this nature is undoubted, it is equally certain that their construction, from the financial point of view, presents even greater difficulties than are to be encountered in the case of railways. The Secretary of State in his Despatch, Financial, No. 1 of January 6th, 1881, paragraph 2, has said: "It may be a question whether in the case of a canal used wholly for navigation an attempt should not be made to ensure its construction by private enterprise; but when, as is usually the case, canals are made either wholly for irrigation purposes or for irrigation and navigation combined, their construction must, as an almost invariable rule, devolve upon the State." I fully admit that for various reasons, into which I need not now enter at length, irrigation generally affords a less hopeful field for private enterprise than railways. I am inclined, however, not to abandon altogether the hope that some irrigation works at all events may yet be constructed by private enterprise, as was suggested by Mr. Caird.† An offer, made by a private company, to construct canals in Sind was recently referred to us by the Secretary of State, and is now under consideration. I admit, however, that we must look to State agency mainly to construct irrigation works. The Secretary of State has laid down, with respect to the inclusion of such works in the "productive" category, that greater latitude may be allowed than in the case of railways. The period within which they should be calculated to pay 4 per cent. on the capital invested is extended to ten years from the date of the completion of the work. I should be sorry to see any further relaxation of this rule. If a work will not pay in ten years, it is very questionable whether its construction out of borrowed money would be justifiable. On the other hand, it is certain that many of the canals which are most required cannot be brought into the productive category, even on the liberal terms of which the Secretary of State approves. For instance, the desirability of taking up the Sind-Sagar-Doab project has recently been pointed out by the Public Works Department; I cannot doubt that the execution of this project would be most beneficial to the country, but it would be quite impossible, even under the most liberal construction of the rules, to include a scheme of this nature in the "productive" category. The unremunerative character of many of the canals, which have up to the present time been constructed,

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* I ought to point out that the estimated expenditure, as given in the Appendix to the Despatch, is 18,350,000*l.* (conventional sterling). The sum which it is proposed to set aside for guaranteed interest is 500,000*l.* a year. This would give only 2.72 per cent. on the capital to be raised. It is, however, improbable that the full maximum charge on account of guaranteed interest would ever fall on the Government.

† "Every facility and encouragement should be offered to private enterprise, either in the construction of railways, irrigation, internal navigation, or harbours, or in the development of mines, or in acquiring land for subsequent improvement settlement, and sale."

is well known.*. Under these circumstances the course which I venture to advocate is, that we should gradually cease from borrowing altogether for irrigation works, save perhaps in some exceptional cases where their productive character is very clear; and that the 750,000*l.* to be devoted annually to protective works should be applied to irrigation. As I have already mentioned, there may be some few railways which present such poor prospects of remuneration that their construction must necessarily devolve on the State. I think, however, that I may fairly assume that, if private enterprise were enlisted in the construction of railways, the whole, or very nearly the whole, of this sum of 750,000*l.* could be made available for the construction of canals.

13. I may remark, as a subsidiary argument in favour of the course I advocate, that in time of famine canals are more suitable than railways as relief works. Any canals or tanks undertaken as protective works would very probably, in the event of famine occurring, prove precisely the works most suitable to be continued as relief works. Thus, when famine occurred, there would very probably be no necessity to make any change in the manner in which the 750,000*l.* was being spent.

14. If, however, it be found impossible to ensure the construction of the lines now under discussion by unaided private enterprise, or by private enterprise aided to an extent falling short of a guarantee, and if the 750,000*l.* is, as I propose, to be devoted to irrigation works, it may reasonably be asked how the money necessary to provide the guaranteed interest is to be found. My answer to that question is, that it must come out of the general revenues.

15. It is no doubt difficult to speak with confidence as to the possibility of inaugurating a policy under which railways will be rapidly constructed through the agency of private enterprise, until we know, in the first place, on what terms we can enlist private capital, and, in the second place, what decisions will be arrived at on other questions intimately connected with the general financial situation.† We must, to a certain extent, allow the policy to develop itself as circumstances may require. The speedy construction of railways is, however, so essential to the development of the country and its protection against famine, that it may fairly be argued that their construction should not be made to depend upon the possibility of effecting certain fiscal reforms. There are two considerations which make me think that it will be financially safe to embark in a policy which involves a limited guarantee, in cases where unaided private enterprise will not come forward; and further, that the guaranteed interest may be charged to the general revenues, and not to the 750,000*l.* which constitutes one half of the annual famine grant.

16. The first of these considerations is, that if, as I propose, canals are paid for out of the annual grant of 750,000*l.*, and railways are made by private agency instead of by the State, it will no longer be necessary to continue to borrow 2,500,000*l.* a year for productive public works. The annual increase of about 100,000*l.* on account of interest on debt will, therefore, cease to accrue, and any surplus which may be realised may be devoted to the reduction of debt. So long as the opium receipts continue at about their present figure, the amount of surplus may be expected to be considerable.

17. The second consideration is, that, whereas up to the present time railways have always constituted a charge upon the State, there is now every reason to expect that we are about to enter a period when they will no longer be a charge but a source of profit. The direct annual gain or loss to the State on account of railways from 1858 to 1877 is given on page vii. of the report of the Select Committee of the House of Commons on Public Works. Major Filgate has kindly added the figures for the last three years. I annex the statement to this Minute (B).

18. The railway receipts of the year are so much influenced by adventitious circumstances that it is difficult to deduce any precise law from the figures given in this statement. Nevertheless, I think that

* See Resolution of the Government of India in the Public Works Department of April 29th, 1881, on the Revenue Report of Irrigation Works in Bengal for 1879-80. From this Resolution it appears that, including indirect charges, the capital outlay in Bengal on canals up to the end of 1879-80 was about 5,267,000*l.*, and that the net revenue for 1879-80 gave a return of only 0·25 per cent. on the capital invested. The Irrigation Revenue Report of the Bombay Presidency for 1879-80 (Statement B, page 12) shows that up to the end of that year the capital laid out on productive works, including indirect charges, was 927,000*l.* The net revenue was 829*l.*, or ·89 per cent. on the capital. The capital outlay on irrigation and navigation works, not classed as productive, was 346,000*l.*; the receipts during 1879-80 amounted to 2,677*l.*; the working expenses to 3,082*l.*; the expenses were, therefore, 405*l.* in excess of the receipts. The figures for productive works do not include the Bigari Canal (capital outlay 117,000*l.*), the Eastern Nara Works (323,000*l.*), or the Krishna Canal (45,000*l.*). These works are all classed as productive, but the full report for 1879-80 on them has not yet been received. It appears, however, from the table on page 172 of the Finance and Revenue Accounts for 1879-80, that in that year they paid respectively ·2, 1·2, and 2·2 per cent. on the capital invested. I have not as yet seen the detailed reports for the other provinces, but it appears from the table on page 172 of the Finance and Revenue Accounts for 1879-80 that in the North-western Provinces the Ganges Canal (capital outlay, 3,025,000*l.*) paid 8·3 per cent.; the Agra Canal (777,000*l.*) 2·6 per cent.; the receipts of the Lower Ganges Canal (1,543,000*l.*) fell short by 1,211*l.* of the working expenses. In the Punjab, the Western Jumna Canal (692,000*l.*) paid 14·02 per cent.; the Bari Doab Canal (1,495,000*l.*) 4·9 per cent.; the Sirhind Canal (2,018,000*l.*) is not yet finished; the remunerative prospects of the Swat River Canal (112,000*l.*) are so bad, and the expenditure necessary to complete the work is so considerable, that it has been removed from the productive category. In Madras irrigation has been very successful. The Godavari system (829,000*l.*) paid 15·1 per cent. The Kistna system (486,000*l.*) 10·5 per cent. The Pennar Anicut system (142,000*l.*) 7·0. The Canvey system (total capital outlay unknown) gave a net revenue of 230,000*l.* The Srivaikuntham weir project (121,000*l.*) paid 7·7 per cent. In the calculations made on page 172 of the Finance and Revenue Accounts the indirect charges are excluded from the capital outlay.

† I will not now attempt to dwell on the numerous and important financial questions which are pending. It will be sufficient to indicate them. We shall have shortly to decide whether the license system is to be continued in its present or in an amended form, and generally whether a direct tax is to be incorporated with the permanent fiscal system of the country. The continuation of the famine cesses must also shortly come under consideration. The Secretary of State has drawn our attention to the opium question. Certain reforms in the customs tariff cannot long be delayed. The question of reducing military expenditure is being seriously considered; but we are as yet uncertain to what extent it will be possible to give effect to the proposed reductions. The equalisation and reduction of the salt tax is also a matter which calls for the early consideration of the Government. There is also the great question of exchange. So long as silver continues exposed to violent fluctuations in value, it is difficult to initiate with confidence any policy which involves either considerable fiscal reform or increased expenditure. Whether such fluctuations can, in the future, be avoided depends, to a great extent, on the issue of the negotiations which have been initiated as a result of the Paris Conference.

I may mention, as bearing on the immediate point under discussion, that there is good reason for supposing that a reduction in the duty paid on imported goods or a reduction in the salt tax would, especially if coupled with an extension of the railway system, lead to a large increase in consumption. The consumption of salt notably depends quite as much on facility of communication as on the rate of duty.

an approximate law may be deduced from them. Roughly speaking, if we exclude the two exceptional years, 1865-66 and 1866-67, it may be said that the net charge on the State went on increasing from 1858-59 until it reached its maximum (2,163,000L.) in 1872-73. It then began to decline. In 1873-74 it was 1,582,000L. In 1874-75, 1,464,000L. In 1875-76, 1,271,000L. In 1876-77, 724,000L. In 1877-78 there was, for the first time, a gain of 131,800L. This was of course due to the large amount of traffic consequent on the famine. In 1878-79 this large amount of traffic had ceased, and the country was suffering from the depression and poverty consequent on the famine. The result was, that the railway receipts fell off, and the net charge on the State was 1,350,000L. The average net charge on the State during the two years, 1877-78 and 1878-79, was 609,000L., being less than the charge for any former year, except 1865-66. These two years may, however, be regarded as abnormal. In 1879-80 affairs got back into their normal state, and the charge to the State was 551,000L. as against 724,000L. in 1876-77. In 1880-81 the net charge was only 208,000L.; and I am informed that this figure, which is only the regular estimate, is too unfavourable by about 200,000L. We have, therefore, now arrived at a point where receipts and charges are about exactly balanced. Any further improvement will, therefore, constitute clear profit. On the whole, I think it is not taking too optimistic a view, looking to these figures, to count on the net receipts increasing at the rate of about 200,000L. each year.* It is a very different matter embarking in fresh enterprises when the railways, which are already constructed, constitute a charge upon the State, and when, on the contrary, they constitute a source of profit. The receipts from railways cannot be held to be taxation. It would, I think, be a very legitimate manner of employing surplus profits to devote them to guaranteeing interest on capital laid out in making fresh railways. Moreover, in dealing with this question, it is to be borne in mind that any fresh feeders which may be constructed will result in sending increased traffic on those lines which already exist, and thus increasing the revenue. I think, therefore, that, if unaided private enterprise will not come forward, we may with safety undertake fresh obligations in the way of guaranteed interest, more especially if we at the same time cease to borrow for productive public works. I am, of course, aware that a change of this sort cannot be carried out at once. The railways now in course of construction by the State must be finished. Only very recently sanction was given to the construction of the Rangoon and Toung-ngu Railway by the State at a cost of about 1,170,000L. For my own part I should have much preferred an effort being made to get this railway constructed by private enterprise. As the matter now stands, however, and unless arrangements be made to sell any of the partially completed lines to private companies, such lines must be finished by the State; and, to the extent of the capital required for their construction, borrowing by the State must continue. But I would not borrow any more than is required for these purposes, unless it be clear that the policy of enlisting private enterprise on moderate terms in the construction of railways is impossible of execution. Any new railway should, I think, if possible, be made by private enterprise, either unaided or with some small amount of Government aid.

19. The policy, therefore, I advocate is—

- (1.) To substitute private enterprise, with a minimum amount of Government aid, for State agency in the construction of railways;
- (2.) To devote the 750,000L., which constitutes one half of the annual famine grant, to works of irrigation;
- (3.) To stop borrowing so soon as the works now under construction by the State are completed, and to devote surplus to the reduction of debt.

20. Experience alone can show whether it will be possible to carry out the whole of this programme. I see no reason why it should not be realised; but at present I put it forward merely as indicating the ends which, as it appears to me, we should seek to attain. The programme is of course subject to any modifications which, as time goes on, may appear necessary.

21. The proposal to apply the 750,000L., which constitutes one half of the annual famine grant, to the payment of guaranteed interest, is manifestly not in consonance with this programme, and on that account it does not commend itself to my judgment.† I am fully aware of the responsibility which devolves on me in opposing a scheme which is supported by the high authority of his Excellency the Viceroy and the unanimous voice of my honourable colleagues. At the same time the subject is one to which I have given so much thought and attention, that I should be failing in my duty were I not to lay before Her Majesty's Government an alternative and, as I think, preferable course of procedure. I have only to add that, should the Secretary of State decide that the policy advocated in the Despatch is to be adopted, I shall, so far as it depends on me, use my utmost endeavours to carry it out in such a manner as will ensure its producing a full measure of beneficial results.

22. There is one further point to which I should wish to allude. The Famine Commissioners (Report, Part II., page 171) say:—"What is now urgently required is the supply, in the shortest

* The figures for the current year show that the net receipts of the guaranteed and State railways from April 1st to June 11th were 115,000L. in excess of the corresponding period of last year.

† I am aware that it may be argued that only a matter of account is involved. The 500,000L., which it is proposed to devote to guaranteed interest, may come out of the famine grant, and an equivalent sum be added to the annual irrigation grant, which would be paid out of the general revenue. Hence it may be said that the procedure in question does not necessarily preclude the attainment of the main object at which I am aiming, viz., the cessation of borrowing and the reduction of debt. In theory there is some force in the argument. In practice, however, I think that the arrangement I propose is preferable. The necessity of fixing the annual grant for irrigation has frequently been pressed on the Government. There is very much less chance that it will vary if the money comes out of the famine grant, the amount of which has now been settled after long discussions, than if it comes out of the general revenue. Moreover, I am tolerably confident that the burthen on the revenues will be less difficult to bear under the procedure I propose than under the alternative procedure. In the one case we should have to find 50 lakhs a year for irrigation, and continue to devote 75 lakhs to protective works in some form or another; for, after the pledges which have been given, this money could not be diverted to any other purpose. In the other case, the irrigation grant is ready to hand, and the net charge on account of guaranteed interest which would fall on the general revenue would vary according to circumstances. I shall be much disappointed if it ever amounts to so large a sum as 50 lakhs in any one year.

“ time possible, of the cheapest form of railway which can be relied on as being capable of carrying such a quantity of food-grain as has been spoken of. To secure these objects, it is essential that the first cost of the works shall be reduced to a minimum, and that, while the construction is thoroughly durable, nothing shall be attempted at the outset which may divert the available funds from what is strictly essential to what is only desirable as affording increased convenience. The main object in view is the provision of a substantial but cheap line fit for a comparatively small traffic at moderate speed. The very careful restriction of the capital outlay is alike necessary to ensure to the utmost the early completion of the lines, the reduction of the whole cost to a minimum, and the working of the lines being soon rendered remunerative.” These observations should, I think, be very carefully borne in mind. What should be the nature of the rail, whether it is possible to dispense with ballast, and other points of a like nature, are matters upon which I can express no opinion. They must be left to the professional advisers of the Government on such subjects. But I may say that it appears to me that the lines which it is now proposed to make should be constructed almost entirely with a view to the transport of goods and third class passengers. I would therefore cut down to the very lowest point expenditure on stations and first and second class rolling stock. On this subject I invite attention to some remarks recently made by Colonel Medley, R.E., which appear to me to be worthy of consideration.* I observe that the cost of 3,083 miles of railway is estimated in the appendix attached to the Despatch at 18,350,000*l.* (conventional sterling). This is at the rate of about 5,950*l.* (Rs. 59,500) a mile. The cost is not very high, but I trust that every endeavour will be made to reduce it still further by eliminating all expenditure which is not absolutely necessary to efficiency.

July 25, 1881.

E. BARING.

* Professional Papers of Indian Engineering, second series, No. cccxlvii. Mr. C. Vincent, the Under Secretary to the Madras Government in the Public Works Department, has also recently published an interesting pamphlet on “Steam Tramways for India.” His suggestions are, I think, well worth considering. He estimates the cost of a tramway on the 5’ 6” gauge at 2,500*l.* a mile, and on the 3’ 8½” gauge, 2,200*l.* a mile.

APPENDIX A.

RAILWAYS.	Capital expended, excluding Suspense Accounts.		Net Receipts.		Per-centage of expense to Earnings.		Per cent. of Profits per annum on Capital Expenditure.	
	1879.	1880.	1879.	1880.	1879.	1880.	1879.	1880.
GUARANTEED.								
	Rs.	Rs.	Rs.	Rs.				
East Indian Main Line - - -	29,16,12,316	33,03,08,294	2,67,08,201	2,87,54,418	31'86	33'04	9'19	8'70
" Jabalpur Line - - -	3,78,08,778							
Eastern Bengal - - -	3,42,34,355	3,45,85,309	24,33,530	27,24,310	45'97	44'81	7'10	7'88
Oudh and Rohilkhand - - -	5,61,92,646	5,81,44,361	18,19,936	19,04,010	58'11	57'25	3'24	3'28
Punjab and Delhi - - -	9,81,24,319	11,52,29,919	45,40,520	54,70,862	60'22	55'92	4'63	4'75
Sind - - -								
Madras - - -	11,05,95,550	11,08,55,335	20,75,170	19,57,136	68'68	68'24	1'88	1'77
South Indian - - -	4,09,09,354	4,16,72,993	10,62,252	9,30,018	68'38	73'87	2'60	2'23
Great Indian Peninsula - - -	24,83,83,445	24,99,77,200	1,01,90,601	1,11,05,951	59'64	55'49	4'10	4'44
Bombay, Baroda, and Central India - -	8,23,22,487	8,21,07,875	37,92,898	47,34,653	46'97	42'57	4'61	5'77
Total - - -	1,00,04,38,200	1,02,29,71,306	5,49,96,836	5,75,81,358	48'10	46'52	5'50	5'63
STATE.								
Calcutta and South-Eastern - - -	97,99,408	66,89,843	44,999	40,753	66'44	40'21	0'67	0'61
Nalhati - - -	3,46,299	3,25,210	29,770	—3,729	67'57	105'33	8'60	—1'14
Northern Bengal - - -	1,90,96,004	2,00,98,652	1,35,120	6,43,509	90'96	60'10	0'66	3'20
Tirhut - - -	51,33,919	53,46,672	1,07,818	2,40,272	70'49	56'40	2'10	4'49
Patna-Gaya - - -	28,45,078	32,20,951	1,01,787	2,11,256	55'84	56'13	3'53	6'56
Punjab Northern - - -	2,45,80,202	4,05,28,373	3,78,889	5,64,171	79'52	83'25	1'54	1'39
Indus Valley - - -	5,70,01,763	6,03,17,427	6,17,459	19,22,399	81'16	71'15	1'08	3'19
Muttra-Hathras - - -	10,84,721	10,88,166	56,708	57,670	54'97	57'35	5'48	5'30
Rajputana - - -	3,09,43,568	3,40,61,947	11,79,167	12,33,305	66'74	66'88	3'81	3'62
Sindhia - - -	78,20,207	81,51,903	—81,772	24,109	134'95	88'05	—0'43	0'30
Western Rajputana (Southern Section)	(b)	(c)	6,754	(c)	85'87	(c)	—	(c)
Holkar and Sindhia-Nimach - - -	2,32,45,265	2,73,12,689	2,91,828	3,53,991	74'53	74'74	1'26	1'30
Wardha Coal (a) - - -	47,99,449	49,18,156	30,325	9,018	81'64	92'40	0'63	0'18
Dhond and Manmad - - -	93,38,053	1,04,58,463	—27,664	88,219	105'92	87'31	—0'29	0'84
Rangoon and Irawadi Valley - - -	1,20,77,402	1,23,07,244	1,41,743	5,21,084	85'17	60'60	1'17	4'23
Cawnpore and Farrukhabad - - -	—	27,08,300	—	—2,932	—	233'25	—	—0'11
Nagpur and Chhattisgarh - - -	—	45,61,621	—	21,271	—	79'54	—	0'46
Total - - -	20,47,01,337	24,20,45,611	30,52,981	58,89,253 (Sic)	78'15	70'88	1'49	2'43
NATIVE STATES.								
Gaekwar of Baroda's - - -	7,50,947	(c)	31,608	(c)	56'15	(c)	4'21	(c)
Khamgaon - - -	5,23,328	5,08,187	—264	4,257	140'69	84'42	—0'05	0'84
Amraoti - - -	4,65,695	4,34,261	16,176	7,429	76'86	86'41	3'47	1'71
Nizam's - - -	1,16,10,466	1,20,62,228	89,925	2,24,309	87'01	68'08	0'77	1'86
Total - - -	1,33,50,493	1,30,04,676	1,37,445	2,35,995	82'00	69'93	1'03	1'81
GRAND TOTAL - - -	1,21,84,84,973	1,27,80,21,598	5,81,87,212	6,37,06,606	51'84	50'49	4'78	4'98

(a) Excluding colliery.

(b) Capital expenditure not shown in the Revenue Account.

(c) Revenue Account not received.

APPENDIX B.

STATEMENT showing the DIRECT ANNUAL GAIN OR LOSS to the STATE from RAILWAY OUTLAY since 1858.

YEAR.	GUARANTEED RAILWAYS.					STATE RAILWAYS.				EAST INDIAN RAILWAY.				
	Capital raised to end of each Year.	Capital with- drawn for Expenditure to end of each Year.	Net Traffic Receipts, less Surplus/Profits paid to Com- panies.	Guaranteed Interest.	Loss or gain to State.	Capital expended.	Net Traffic Receipts.	Interest at 4½ per cent.	Loss or gain to State.	Capital expended.	Net Traffic Receipts, less Surplus paid to Share- holders.	Interest and Annuity.	Loss or gain	Total loss or gain to State.
1858-59	22,998,405	19,151,531	282,365	838,411	606,046	—	—	—	—	—	—	—	—	606,046
1859-60	28,573,287	26,322,995	403,057	1,199,929	796,872	—	—	—	—	—	—	—	—	796,872
1860-61	34,397,817	33,901,710	389,413	1,485,743	1,096,332	—	—	—	—	—	—	—	—	1,096,332
1861-62	42,979,539	40,503,922	891,162	1,788,153	1,396,991	—	—	—	—	—	—	—	—	1,396,991
1862-63	48,218,541	46,367,266	625,615	2,166,755	1,541,140	—	—	—	—	—	—	—	—	1,541,140
1863-64	54,332,994	51,192,919	821,548	2,456,182	1,634,634	—	—	—	—	—	—	—	—	1,634,634
1864-65	57,541,917	55,245,159	1,129,851	1,683,787	1,553,936	—	—	—	—	—	—	—	—	1,553,936
1865-66	60,860,247	60,882,025	2,865,374	2,889,241	23,667	—	—	—	—	—	—	—	—	23,667
1866-67	67,258,917	68,179,728	2,347,085	3,031,087	684,002	—	—	—	—	—	—	—	—	684,002
1867-68	76,571,751	75,299,809	1,989,112	3,480,677	1,491,565	594	—	14	14	—	—	—	—	1,491,579
1868-69	82,417,905	79,167,786	2,229,509	3,881,013	1,651,504	552,992	—	13,455	13,834	—	—	—	—	1,665,338
1869-70	86,773,325	83,910,687	2,627,941	4,126,925	1,498,084	734,862	—	29,180	29,970	—	—	—	—	1,528,054
1870-71	91,436,816	87,686,857	2,556,707	4,341,609	1,784,992	1,193,234	68	43,585	43,517	—	—	—	—	1,828,419
1871-72	93,550,308	90,183,585	2,877,153	4,542,183	1,665,030	1,837,854	—	68,199	72,262	—	—	—	—	1,787,292
1872-73	93,736,915	90,660,830	2,554,485	4,608,418	2,053,933	3,251,503	5,362	114,510	109,148	—	—	—	—	2,163,081
1873-74	94,755,814	91,353,883	3,241,189	4,617,923	1,376,734	5,606,128	—	199,297	205,771	—	—	—	—	1,582,505
1874-75	95,119,118	92,441,794	3,454,348	4,643,901	1,189,053	8,620,308	—	320,095	275,113	—	—	—	—	1,464,166
1875-76	95,072,441	93,392,600	3,729,034	4,637,891	908,857	11,785,492	96,027	459,131	363,104	—	—	—	—	1,271,961
1876-77	94,833,129	94,188,059	4,433,151	4,658,681	225,530	14,651,353	88,621	587,525	498,904	—	—	—	—	724,484
1877-78	96,313,173	95,420,309	5,396,790	4,655,285	+ 741,505	18,636,321	127,774	737,479	609,705	—	—	—	—	+ 131,800
1878-79	97,174,046	96,444,666	4,023,589	4,705,191	681,602	21,964,209	231,629	899,374	668,245	—	—	—	—	1,349,847
1879-80	97,969,284	96,829,969	3,974,645	4,716,340	741,695	24,644,702	333,497	1,053,160	724,663	*37,354,248	949,154	84,397	+ 914,757	551,601
1880-81	67,282,930	66,284,368	2,333,900	3,261,756	927,856	26,690,002	602,000	1,169,200	567,200	632,200	2,800,000	1,513,127	+ 1,286,873	208,183
	—	—	54,627,723	79,416,183	24,788,460	—	1,517,254	5,698,704	4,181,450	37,936,448	3,749,154	1,547,524	+ 2,201,630	26,768,280

The decrease in the transactions of the guaranteed railways in 1880-81 compared with the year immediately preceding is due to the removal of the East Indian Railway from the category of guaranteed railways.

* This sum is thus arrived at :—

(a) Capital of East Indian Railway at time of purchase	26,200,000
(b) 2½ per cent. premium thereon	6,560,000
Debiture and Debenture Stock	4,490,000
Outlay subsequent to purchase	154,248
Total	37,354,248

(a) Of these amounts, 27,623,334½. will be redeemed by an annuity terminable in 1963, which annuity is entered in the column "Interest and annuity."

The figures in this statement agree with the finance and revenue accounts. The whole of the Indian capital transactions of guaranteed railways down to the present time, and those of the revenue and interest transactions of the guaranteed railways down to the year 1878-79, the net traffic receipts of the guaranteed railways, and the portion of the guaranteed interest paid in India, have been converted into sterling at the contract rates of exchange. All other transactions are converted into sterling on the assumption that 17. = Rs. 10.

No. 125.

DESPATCH to the GOVERNMENT OF INDIA, August 31, 1881, No. 45 (Public Works).

MY LORD MARQUIS,

PARAGRAPH 1. Your Excellency's letter in the Department of Finance and Commerce, No. 172, dated 1st July last, transmits for my sanction a project for the construction of the Mhaswad Tank in the Bombay Presidency as a protective work. Page 164.

2. The area of country which it is designed to protect by this work is evidently one calling for early attention, and the engineering capabilities of the scheme appear to have been thoroughly sifted both by the responsible officers under your own Government and under the Government of Bombay, with the result that your Inspector General of Irrigation is enabled to pronounce the "Mhaswad project to be in all essential points sound as regards the design."

3. According to the chief engineer's calculation, as modified by your Inspector General of Irrigation, the gross revenue from water rates will be Rs. 1,20,700, besides Rs. 6,500 from miscellaneous receipts, and, deducting Rs. 23,450 for maintenance, there will be a net balance of Rs. 1,03,750, or 4.89 per cent. on the estimated capital outlay on the work.

4. On the other hand, the returns are estimated by the revenue commissioner at only $3\frac{1}{4}$ per cent., and I think it more prudent to accept this lower forecast of direct returns from the work.

5. Apart, however, from financial considerations, the work is one which is so clearly calculated to afford the much needed means of relief in a portion of the Deccan continually exposed to the dangers of famine, that I have decided on according my sanction to the construction, from ordinary funds, of the Mhaswad Tank project as a protective work, at an estimated total cost of Rs. 21,13,821, of which Rs. 18,15,771 is estimated for direct and Rs. 2,98,050 for indirect charges.

I have, &c.
HARTINGTON.

No. 126.

DESPATCH to the GOVERNMENT OF INDIA, December 8, 1881, No. 365 (Financial).

MY LORD MARQUIS,

PARAGRAPH 1. I have considered in Council your Excellency's letter, dated the 22nd of July, No. 92 (Railway), on the subject of the construction of railways as protective works, together with two Minutes by Mr. Rivers Thompson and Major Baring, which were subsequently forwarded. Page 165

2. Referring to the portion of the Report by the Famine Commission which deals with the subject of railway construction, your Excellency observes that, of the 5,000 miles estimated by the Commission as the minimum extent of lines still necessary for the substantial protection of the country, you have strong grounds for believing that at least 3,000 miles will have to be constructed for protective purposes, there being no sure prospect of their yielding such a return within a reasonable time as to lead to their being classed, under the existing rules, as productive works, or as to tempt private capitalists to undertake them without State aid.

3. The sum of money available from the revenues of the country for expenditure annually on protective works is 75 lacs of rupees, of which you consider that 25 lacs should be allotted to works of irrigation. The remaining 50 lacs will, on an average, suffice to provide about 400 miles of metre gauge railway in the course of every five years over which the operations may extend, according to which the 3,000 miles required would not be completed under 30 years.

4. You look upon it as quite out of the question to attempt to raise by taxation the sum needed for the construction of the 3,000 miles of protective railway "in the course of the next four or five years," and you are precluded by "the recognized policy of Her Majesty's Government and of Parliament" from raising the amount by loan. Nor, if you had the money, would it "be possible to do justice to the work in that time by departmental agency alone."

5. Your Excellency, therefore, turns to the possibility of entrusting your "railway works to private enterprise under a safe and reasonable guarantee;" and, "in the existing state of the money market and the amount of money now seeking investment," you consider that you have "an opportunity for inducing capitalists

“ to invest in public works in India, such as has seldom, if ever, existed before, and of which, in your judgment, it would be prudent to take early advantage, in order to obtain the acceptance of terms of guarantee, which, while giving the capitalist security for the small rate of interest his money can command in the open market, shall not unduly burden ” your revenues.

6. You accordingly recommend that private capitalists should be invited to undertake the construction of the protective lines, for which reconnaissances are being made, upon a guarantee of interest limited both in amount and in duration. The interest to be paid under this scheme may, in your opinion, be fairly charged against the 75 lacs a year allotted to the construction of protective works, and you, therefore, propose to provide the funds in that manner, a course by which you consider that you will be keeping strictly within the prescribed limits of public works expenditure; and you trust that you may receive at as early a period as may be possible my sanction to these principles of public works policy.

7. In an appendix to your Excellency's letter a list is given of five systems of lines on the metre gauge, comprising a length of 3,083 miles, the construction of which is estimated roughly to “ cost about 1,835 lacs of rupees, or 15,300,000*l.* sterling at the exchange of 1*s.* 8*d.* per rupee.”

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Pages 63
and 159.

8. I observe in this correspondence that, although reference is more than once made to the instructions regarding the outlay on protective works contained in the 11th paragraph of my Despatch of the 6th of January 1881, No. 1 (Financial), no allusion is made to the orders of 1879 (therein quoted as being re-affirmed), and the suggestion of using the provision for famine insurance as interest, instead of capital outlay, is treated as if it had now for the first time been presented to the Government of India.

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9. In a letter from the Government of India, dated the 16th of September 1878, No. 354 (Financial), it was explained that there was a class of works which could not be classed as productive, but which were needed to give protection against famine, and it was proposed to accept a yearly maximum dead-weight charge for productive and protective works, which charge, it was thought, might for the next five years be fixed at 25 lacs of rupees, in addition to existing net liabilities of this class, by which sum it was accordingly proposed to reduce the famine insurance surplus. Although the exact method of accounting for the expenditure is different, the proposal appears to me essentially the same as that now submitted by your Excellency, except that the agency for the construction of the works was to have been that of Government officers instead of so-called private enterprise, and that the maximum additional burden on the revenues was to be 25 instead of 50 lacs annually. Lord Cranbrook, in his reply of the 20th of February 1879, No. 62 (Financial), declined to sanction “ any loan for outlay on protective works, or any expenditure on them beyond what may be met from the receipts from the special taxation recently imposed.” He then proceeded to convey his sanction to the appropriation of 750,000*l.* annually to the “ extinction of debt, to the relief of famine, or to the construction of protective works,” outlay on which was permitted, by his Lordship's further Despatch of the 13th of November 1879, No. 444, to be in addition to the amount spent on productive works.

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10. I am unable to concur with your Excellency in the opinion above referred to that the course which is now proposed would be consistent with the instructions on public works expenditure which have been given from time to time by successive Secretaries of State, and which were recapitulated in my Despatch of 6th January 1881.

Page 99.

11. The object of those instructions was to limit the expenditure of borrowed money to such works as could, under certain rules, be defined as reproductive, and even upon such works to an average annual amount of 2½ millions, and to lay down that works which did not fall within that category should be constructed only out of revenue, for which purpose half the amount of the famine insurance provision has since been permitted to be applied.

12. Under these instructions the increase to the public debt of India incurred for the construction of public works was restricted within certain narrow limits, and it was hoped that security was obtained that it should not permanently be increased at all.

13. Your Excellency, while desirous to conform to the limits thus prescribed, appears to consider that they will not be transgressed by the policy now proposed. But I have to point out that a guarantee of interest, upon a capital estimated to amount to 1,825 lacs, would impose a liability on the revenues of India which was certainly not contemplated when the Despatch of 6th January was framed, or when

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the instructions, of which it was a summary, were issued. It is true that it is proposed that the guarantee should be limited in amount and duration, and much depends on the sense in which those limitations are understood. But, when I observe that all the lines which it is thus proposed to entrust for construction to guaranteed companies are lines designated as protective, that is to say, lines which cannot be reasonably expected to offer a return of 4 per cent. within four or five years from completion, it is impossible to expect that capitalists of standing would be found ready to embark their capital on other terms than the promise of a somewhat heavy and lengthy guarantee. Neither can it be overlooked that, at the expiration of such a period of guarantee, there would be a powerful moral obligation on the Government, if the undertaking should prove to be unremunerative, to come to the assistance of a body of shareholders whom it had induced to enter on a philanthropic undertaking for the benefit of the people of India, knowing at the time that the line was not one which could be constructed on commercial principles. The assumption of a liability of this character, certain for a considerable period and subsequently undefined, appears to me to differ not very greatly from the direct increase of indebtedness which it has been the object of recent instructions to avoid.

14. In the second paragraph of my Despatch of 6th January I stated my views on the employment of private capital in the construction of railways in India. They were, that capital should be raised *on the exclusive security of the success of the undertaking*; and, if this were found impracticable, that a system of modified guarantee might be adopted, which was defined as one so restricted as to time and rate of interest as to give the subscribers a *real interest* in the efficient and economical administration of the railway. Page 99.

15. It is, I think, clear, on a consideration of these observations, that it was the investment of private capital in undertakings the principal attraction of which was their prospect of commercial success, which I had in view, and that this policy differs widely from one which would tempt capitalists to invest, not on the commercial advantages of the undertaking, but mainly on the prospects offered by the Government guarantee.

16. Acting upon the foregoing principles, I have had great satisfaction in approving the concession which has been made to the Central Bengal Railway Company. It may be a question whether the limited guarantee which has been given in that instance was absolutely necessary, and whether the capital might not have been obtained without it. But, as your Excellency is aware, it was considered so important that the first trial of this policy should be made under favourable conditions, that I am not disposed to regret the liberality which was displayed in regard to that company. There can, however, be no doubt that in this instance it was the anticipation of commercial success which was the main inducement to the promoters. More than one proposal for the construction of railways by private companies is now before your Excellency's Government, in a position more or less advanced, and will, when brought before me in a definite form, receive my most favourable consideration. Page 114.

17. But it appears to me that it is of the essence of this policy that the proposals should proceed from the capitalists themselves, and that they should not be made by the Government to the capitalists. I can conceive nothing more injurious to the success of the policy of enlisting private enterprise in the development of railway construction in India, than to lay before the public a large scheme of railways avowedly of an unremunerative character. Such a course would, in my opinion, infallibly stimulate unreasonable demands, and would place a serious obstacle in the way of obtaining favourable proposals for other undertakings.

18. In short, while I continue to look with some hope to the policy of the development of remunerative public works in India by private capital, and possibly to the substitution of this agency for that of the Government by means of borrowed funds, I am unable to regard it as a suitable agency for the completion of those lines which are indicated by the Famine Commission as necessary for the protection of the country against famine, though uncertain in their prospect of pecuniary profit. For the completion of these lines I can look to no other agency than that of the Government itself.

19. As to the rate at which it may be possible for the Government to undertake their construction, while I am by no means disposed to admit that the true interests of India will be best secured by the construction within the next few years of 3,000 miles of unremunerative railways, I concur with your Excellency in regretting that the limits now imposed should delay their progress to the extent which is pointed out in your Despatch.

20. Until it is possible to form a more certain estimate of the financial position of the country, I feel compelled to withhold my sanction from a more rapid outlay than the existing rules permit. But those rules were confessedly of a temporary character, imposed in a financial condition of the country which inspired grave alarm, and which cannot be said to have as yet absolutely passed away.

21. It follows from this general statement of the opinions which I entertain on the subjects of the encouragement of private enterprise and of the development of protective railways, that I am not at present disposed to give a final decision on the question, which has given rise to a difference of opinion in your Excellency's Council, of the source from which such guaranteed interest as it may be necessary to provide should be supplied. To formally allocate a sum of 500,000% for the purpose from the famine insurance provision would, in my opinion, be inconsistent with the intentions with which this provision was made, and would, I apprehend, give rise to unfounded expectations as to the amount of assistance which the Government is prepared to offer, and I should prefer that the nature of this assistance should be decided in each case as it arises.

22. It may, however, be reasonably hoped that the financial condition of the country may soon admit of a more free expenditure on public works. The cessation of the operations on the north-west frontier of India has afforded great relief to the finances; and, if the fiscal system of the country is placed on a really sound footing, and an adequate surplus of revenue secured, it may, I trust, be feasible to devote larger grants of money to the development of the more backward districts, without the fear that the burden thereby imposed upon the people of India is increasing more quickly than is justified by the results, or than the population can bear without undue pressure.

I have, &c.
HARTINGTON.

PART III.

CORRESPONDENCE REGARDING THE MEASURES TAKEN FOR THE
PURPOSE OF FAMINE INSURANCE.

No. 127.

LETTER from the GOVERNMENT OF INDIA, January 4, 1878, No. 7 (Financial).

MY LORD MARQUIS,

WE now have to report, for the information of Her Majesty's Government, the steps we have taken consequent on the receipt of the telegram of the 23rd October last, conveying to us the conclusions your Lordship in Council had adopted with reference to our Financial Despatches No. 246 A. of 1877 and No. 12 (Salt) of 1877, dated the 16th August last. Copies of the proceedings in the Legislative Council of the Governor General on the 27th December last and of the Taxation Bills then introduced are appended; among these papers will be found reports of the speeches of his Excellency the Viceroy, Sir John Strachey, and the Lieutenant-Governor of Bengal, regarding the measures by which the Government of India proposes to provide the additional resources required to enable it to meet expenditure for the relief and prevention of famine. Those speeches have given a full statement of the nature of these measures, but there are some points on which we desire to offer to your Lordship further explanations.

2. During the period that has elapsed since the Despatches of August last were written, we have carefully reconsidered the whole of the proposals they contained, more particularly with reference to the fear expressed in your Lordship's telegram that the imposition of disproportionate burdens upon the agricultural class might create groundless doubts as to the security of the settlements of the land revenue. This reconsideration has led us to introduce several important modifications into our proposed plan of operations, which we confidently anticipate will be found to have rendered our measures more acceptable to the local governments, on whose hearty co-operation their success necessarily depended, as well as to the public; and at the same time to have removed from them all appearance of disregard to the obligations imposed upon the Government by the settlements of the land revenue.

3. As your Lordship will be aware, under the arrangements made at the commencement of the present financial year, to the main principles of which we were glad to receive the cordial sanction of Her Majesty's Government in your Financial Despatch No. 328 of the 12th October last, the Lieutenant-Governor of Bengal introduced into his Council a measure for raising an additional cess upon the land in Bengal, to provide funds by aid of which he should be enabled to accept the responsibility of meeting the charges that had been placed on the imperial revenues by reason of the great irrigation works undertaken in this province during the last ten or twelve years, as well as those that might arise in the future from similar works, or from the construction of the minor lines of railway of provincial interest which had already been begun, and the necessity for the extension of which became daily more obvious.

4. A somewhat similar arrangement was at the same time made with the Government of the North-western Provinces; but in this case the necessary additional means were supplied to the local government by the imposition of a light trade or license tax, and by authorising the application to works of irrigation and railways, which would be of permanent utility to the province as a whole, of a portion of the then existing local rates on land, which, under the law as it before stood, could only be appropriated within the districts in which they were raised.

5. The principal objects which we sought to secure by the proposals made in our two Despatches of the 16th August, already alluded to, were to complete the financial measures required for extending the arrangements already concluded with Bengal and the North-western Provinces to all the other provincial governments; while such an addition should be made to our general resources as would supply the means of meeting

the heavy liabilities thrown on the revenues by the recurrence of famine, and provide a sufficient surplus to cover the unexpected demands that so frequently arise in excess of the estimated annual charges.

6. We also desired to carry out in combination with these measures certain modifications of the salt duties, which should lead up to the eventual equalisation of these duties in all parts of India, and the abolition of the inland customs line, the urgent obligation to effect which great reform has been so long recognised and so often postponed.

7. Those proposals having been generally accepted by your Lordship in Council, subject to the caution to which allusion has been already made, we have now taken the first steps for carrying them into effect, after introducing the modifications to which we have referred and which we shall now more particularly explain.

8. A reference to the first of our Despatches No. 246 A. of the 16th August, before noticed, will show that our original proposal contemplated the provision of a total sum of $1\frac{1}{2}$ millions, in addition to the existing revenues, of which one million was said to be required to supply in part the demands on account of famine expenditure, and half a million to provide a tangible surplus. The whole sum which we named as likely to be needed on account of famines was $1\frac{1}{2}$ millions; but we then thought it might be better to be satisfied for the present with one million, and to rely for the remaining half million on the enforcement of provincial liability, that is, on provincial taxation, when famine actually occurred.

9. We further pointed out that the arrangements begun in March last for the extension of provincial financial responsibility, which have subsequently been carried further, would improve our position without additional taxation to the extent of 400,000*l.*, while new taxes, imposed in consequence of these arrangements, gave an increase of income of 300,000*l.*, making together 700,000*l.* This left 800,000*l.* still to be provided, to supply the whole sum of $1\frac{1}{2}$ millions said to be needed.

10. The first modification of our views had reference to the amount to be now raised to meet famine requirements. We have thought it right to make provision at once for the full amount of $1\frac{1}{2}$ millions, instead of asking for one million only at present, and relying on future taxation to supply the residue. While we still feel that it is very necessary to give practical incentives to economical local management, we are of opinion that this must be sought otherwise than by special taxation at a time of famine. Such a time would not be one in which we could practically impose additional burdens, and it is during periods of comparative prosperity that we must obtain the means of discharging debt incurred in time of distress, and of providing funds for the prosecution of protective works. Moreover, it is apparent that measures of taxation having for their object the provision of resources to meet the expenditure incurred, or to be incurred, for the prevention or relief of famine, would be accepted much more readily at the present time, than if they were postponed till the remembrance of the late great calamity had passed away.

11. The sum which we consider necessary as an addition to the revenues to furnish a sufficient surplus we continue to reckon at half a million.

12. Proceeding, as before, from the position that 700,000*l.* has already been secured by the measures taken in the earlier part of the present financial year, we arrive at the conclusion that to make up the famine requirements alone a sum of 800,000*l.* will be needed.

13. Our former proposals, which contemplated raising $1\frac{1}{2}$ millions for the combined requirements of famine wants and a sufficient surplus, also had in view the imposition of new taxes to the extent of 800,000*l.*, which were to have been distributed in equal proportions on the trading and agricultural classes.

14. On reconsideration, we found that, by altering the form of the proposed license tax, and adopting the system of graduated assessments in the manner suggested in your Lordship's Legislative Despatch No. 55, dated 25th October last, its productiveness could be much increased, while at the same time it would be rendered more equitable. We were also led to the conclusion that the proportion of the burden first proposed to be put on the land was unduly high, Bengal having already contributed its due share, through the additional taxation imposed in the present year. We have consequently thought that, in distributing the sum of 800,000*l.* which, as already explained, we now consider necessary to meet the famine requirements, the land should not be required to supply more than 150,000*l.*, the residue, 650,000*l.*, being provided by the license tax. Combining this new taxation with that previously imposed in the present financial

year, the total burden placed on the land may be taken at 425,000*l.*; and that placed on traders at 675,000*l.*, or in all 1,100,000*l.*—the remaining portion of the 1½ millions being provided, as before stated, by the provincial arrangements, without taxation.

15. In arriving at these results, we were chiefly influenced by the following considerations.

16. As stated at length by Sir John Strachey, it is mainly on the agricultural and trading classes that the dangers arising from famine press. These, too, are the classes which derive special advantage from the rise of prices that attends a time of scarcity, when the producing and trading community greatly benefit in the districts where the food crops have not failed. The class with incomes that are fixed is that which least calls for relief in time of famine, although it suffers severely from high prices, with almost no power of obtaining a set-off, such as the producing and trading class can secure.

17. As regards the trading classes, we felt that it was notorious that they were the least heavily taxed portion of the population; while they derive special benefit from our improved administration, and from the public works provided at the cost of the country at large. We consequently have thought it only fair to apportion to them a somewhat larger share of the new taxation than that allotted to those interested in the land. The class with fixed incomes, consisting mainly of professional persons, will not come under the proposed license tax.

18. We have given anxious attention to the obligation that was imposed upon us, to avoid carefully anything that might have the effect of unduly weighting the land; and the principles laid down by the Duke of Argyll on the subject of levying rates upon the land have been scrupulously guarded by us. Sir John Strachey took particular care to show that this very important point had been attended to; and he explained how the course we have followed in this part of our measures was in exact conformity to the opinions that have been expressed by Sir William Muir, and that this affords a sufficient guarantee that the obligations involved by the settlements of the land revenue have not been overlooked or undervalued by us.

19. The consequence of this reconsideration of our proposals has been that we have not imposed any additional rates on the land in Bengal, its due proportion of the whole amount it is now necessary for us to obtain being contributed by the cess already imposed in consequence of the measures resolved upon in March last. The license tax will place on the trading classes in this province an approximately equal burden. A copy of our letter to the Government of Bengal, authorising the Lieutenant-Governor to introduce into his Council a Bill for imposing a license tax in Bengal, is appended to this Despatch. The Lieutenant-Governor's speech in the proceedings of the Legislative Council on the 27th December contains a statement of the purport and objects of the Bengal Bill.

20. In the North-western Provinces the license tax imposed in March will be extended, so as to bring the richer classes more equitably under contribution by graduated assessments than was done by the more partial measure adopted in the spring. A fairly equivalent cess will be raised from the land. Here, also, the burden of the additional taxation will be as equally distributed as is practicable.

In the other provinces of Northern India, the Punjab, Oudh, and the Central Provinces, in which no action has yet been taken, the simultaneous application of the additional land cess and license tax will also effect an equitable distribution of the burdens on the agricultural and trading classes.

We are not in a position to say at present whether the additional taxation which is proposed for other provinces should be extended to British Burma and Assam. On this subject it will be necessary for us to communicate further with the local administrations.

21. This disposes of that part of our measures which have for their object the provision of the 1½ millions required to meet famine expenditure.

22. We now pass to our Despatch No. 12 (Salt) of 1877, and shall proceed in like manner to explain the modifications that have been made in the proposals contained in it, the causes that led to them, and their financial bearing.

23. The main scope of our first proposals was to make an increase to the salt duties in Madras and Bombay, raising the present duties to two rupees eight annas per maund, estimated to give an addition to our revenue of 500,000*l.*, and to abandon the inland customs line, and with it the sugar duties, whereby we should sacrifice 165,000*l.*, leaving a net increase of income amounting to 335,000*l.*

24. We explained that this proposal had no special relation to the provision of additional revenue, and that the increase of the Madras and Bombay duties, which had been for some time past resolved upon, was still to be regarded as the means of facilitating the equalisation of the salt duties, which object it would have been impracticable to attain otherwise. At the same time we pointed out that, if this measure were carried out now, instead of being postponed for a limited period—one or other of these courses being inevitable,—it would enable us to dispense with the present imposition of any additional rates on the land in these two provinces, a relief which justice to other parts of India, at a time of placing additional burdens upon them, could hardly have permitted us to grant otherwise.

25. This conclusion still appearing to us to be sound, we saw no reason for departing from it. But the question still remained, to which allusion was made in our Despatch already referred to, whether or not the districts of Madras had so far recovered from the effects of the late calamitous drought as to remove objections that might on that ground have existed to the carrying out of the projected measures at the present time.

26. It was obviously impossible that any publicity should be given to our intentions with regard to these salt duties until the moment for actual action had arrived. At the same time it seemed to us of much importance that, if it could be so managed, our announcement of our financial policy should be complete, and should leave nothing to create in the public mind anxiety as to the possibility of any further taxation or other measures, affecting commercial or other interests, being brought forward later in the year.

27. But, while this was the case, we were bound, in justice to the Madras Government, not to ask it to come to a conclusion sooner than was really necessary. We consequently postponed inquiry as to this matter as long as was practicable; and we finally left it to that Government to decide whether or not there was any valid reason for delaying action for a few months, the general policy being necessarily accepted. The decision of the Madras Government was that no such reasons existed, and, the Bombay Government having concurred, the immediate raising of the duties in these provinces was resolved upon.

28. Under the circumstances we have explained, only a few days remained from the receipt of this decision of the Madras Government, to the date which we had fixed for making known the rest of our policy as it affected the other parts of India. Hence an immediate resolution had to be taken as to the manner in which this increase of the salt duties in Southern India should be made to fit into our other arrangements.

29. Your Lordship will call to mind that, when our letter of the 16th August last was written, we contemplated the abolition of the sugar duties simultaneously with the raising of the Madras and Bombay salt duties. But the negotiations with the states of Rajputana are still in a position that renders it impossible to remove the customs line at present, and consequently the immediate removal of the sugar duties is no longer obligatory.

30. A review of the position, therefore, showed us that three courses were open to us: either to make the addition to the salt duties in Southern India, with no sacrifice of other income, or to combine that addition with the removal of the sugar duties as first proposed, or, instead of the sugar duties, to remove a portion of the higher salt duties in Northern India and Bengal. The course that we have actually adopted was the last of these, for reasons that we shall now explain.

31. If we had simply raised the duties in the south, with no countervailing reduction elsewhere, the sincerity of our frequently alleged motives for dealing with the duties, and of our declarations that we were not influenced by a desire for increased revenue, would have been seriously discredited. The disregard of promises of equalisation made for many years in succession, fulfilled not by a reduction but by an actual addition, must have been ill received, and our position towards the Madras Government would have become one that we could not accept, after having distinctly informed that Government that our policy was not based on a desire to obtain increased revenue. Nor, indeed, would such a course have been in accordance with the spirit of the proposals approved by your Lordship. Those proposals, we would repeat, were essentially framed so as to contain in them a decisive recognition of the great principle that our main object was not increase of revenue. To abandon the part of the plan that gave evidence of this recognition would, in our estimation, have been to introduce a fundamental change, which we should not have felt it right to make without reference to your Lordship, even if we had thought it to be desirable in itself.

32. Discarding this course, therefore, and bearing in mind that our original proposals to Her Majesty's Government had only contemplated a temporary additional income of 335,000*l.*, we next considered whether, under the altered conditions of the problem, it would be more politic to give proof of our real intentions, by the sacrifice of the sugar duties, amounting to 165,000*l.*, or by an approximately equivalent reduction of the salt duties in Bengal and Northern India.

33. On the one hand, the sugar duties, though no doubt highly objectionable on all proper economical principles, and obstructive to the commerce and agriculture of the North-western Provinces, yet are without doubt, to a great extent at least, borne by the people of Rajputana, who pay for the taxed sugar. On the other hand, the reduction of the salt duties would give immediate relief to a tax on one of the chief necessities of life to the entire population of Northern India, from the Indus to the Bay of Bengal, amounting to 130 millions of our own subjects. But more important than this was the obvious consideration that the most certain proof of our real intention of reducing these duties was to make an actual reduction, and no longer merely to talk of it.

34. We therefore resolved to diminish the duties in the Upper Provinces by 4 annas a maund, and in Bengal by 2 annas a maund, thereby giving up a sum of about 200,000*l.*, and reducing the net produce of the augmentation in Southern India to 300,000*l.*, instead of 335,000*l.*, as originally suggested.

35. It is not necessary for us to refer in detail to the reiterated injunctions conveyed to us by your Lordship and your Lordship's predecessor, as to the great importance of giving effect to this reform, injunctions that have now extended over a long series of years; and we will only express our gratification that so important a step in carrying out this long-desired object has at length been taken.

36. The sum of 300,000*l.* thus having been obtained, out of the 500,000*l.* by which we hold that the revenues should be improved to secure a sufficient surplus after meeting the ordinary demands upon them, it would appear that there still remained an uncovered deficiency of 200,000*l.* But we will remind your Lordship that we are not now framing the budget estimate for the coming year, but only making provision for that permanent increase of resources which we consider to be unmistakably necessary at the present time.

37. From what has gone before it will be apparent that the additional income we hope to secure from the salt duties is in no sense a permanent addition, but is destined, at the earliest possible opportunity, to be given up, with a view to the complete equalisation of these duties all over India. Nor should we have been justified, when proposing fresh taxation, to omit from our consideration what we believe to be thoroughly well established, that we may confidently rely on a steady increase of the general revenues. We consequently accept, for the present, this normal growth of the income as a sufficient security for making good our desired surplus of 500,000*l.* We trust also that we may thus find the means at no distant future of accomplishing the abolition of the North-west sugar duties, the equalisation of the salt duties, and other desirable fiscal reforms.

38. Having now explained the form which we design to give to the new taxation, it remains for us to indicate the manner in which we contemplate that the funds so created shall be applied, and the objects that we hope to secure by their application.

39. In the first place, however, we would observe that, throughout our proceedings in connexion with the recent famine, we have kept in mind the views expressed by your Lordship, when writing of the Bengal famine, in your Revenue Despatch to our Government, No. 59, dated 25th November 1875, as to the obligations of the State in respect to the preservation of the lives of the people in time of famine, and the correlative responsibility that rests on the people themselves to provide for their own support and well-being. As your Lordship then remarked, "The duty of the State does not extend further than to see that the needful means are supplied for giving effect to this principle, and for distributing the local burdens arising from its practical application in the manner which shall be most equitable and least onerous to those who have to bear them."

40. Acknowledging the obvious impossibility of at once creating a system that shall give full satisfaction to these demands, and feeling that this can only be accomplished in the light of prolonged experience, and possibly after more than one effort in a direction that may hereafter be found to have been erroneous, we have nevertheless not hesitated to take the steps which at the present time seem to us best suited to lead us to the end in view. We have therefore proposed to establish what we may term a

system of mutual assurance, under which all parts of the country, while primarily responsible for supplying the wants which arise within their own area, shall contribute towards the relief of other parts on which famine may actually fall. With this view the new taxes will be imposed provincially, and they will so far as possible be applied provincially to the object for which they are intended. How this may be attained without sacrificing the paramount interests of the general government, which require that the special resources now created shall be at the complete command of the Government of India, to be applied in discharging obligations arising from the dead-weight of unfruitful famine expenditure, we shall next explain.

41. There is hardly any part of India of which it may not be said that at one time or other the wants of the people in time of famine either have led or may lead to large expenditure, the effects of which must weigh permanently on the finances of the empire. There rests therefore on all parts of the country an obligation to join in removing this weight, which, when it disappears, will leave the country with increasing means of obtaining further protection; then too the action of the State may, we hope, lose that fatal character of vacillation which it is impossible for us not to recognise in the history of this branch of Indian administration, and which was indeed inevitable so long as the financial basis for that action was insufficient.

42. We have, then, to apportion to the several provinces a share of the general burden due to famine requirements, commensurate with their power of bearing such burden. Also, so far as possible, to connect their several contributions with any special charges that have arisen, or may arise, from expenditure on public works or for other purposes, incurred for the relief or prevention of famine. This course we have already followed in extending the provincial financial system in Bengal and the North-western Provinces. Should such a plan be anywhere found inapplicable, a direct contribution from the provincial to the imperial revenues will be required, and, by the combination of the two methods, relief to the revenues will be afforded to the full extent that is called for.

43. The sum thus to be provided being $1\frac{1}{2}$ millions yearly, the general result will be that our estimates in future should provide for the application of this amount year by year, either to the direct extinction of debt, or to the prevention of the increase of debt to the same extent, so long as we continue to borrow money for the prosecution of productive works.

44. It will place this subject in a clearer light, if we for the moment look to the financial results of our measures as a whole, without introducing the provincial idea at all.

45. If we apply $1\frac{1}{2}$ millions yearly to the direct extinction of debt, we obtain relief to the extent of, say, 60,000*l.* a year, by the saving of the interest, and at the end of 10 years we should be in a better position to the extent of 600,000*l.* a year. If the necessity for borrowing to meet famine charges then arose, we could again add to our debt to the extent of 15 millions, without bringing ourselves into a worse financial position than that from which we had started, and during the interval we should, besides, have been placed in possession, year by year, of a steadily increasing sum available for further discharge of debt, or for administrative, fiscal, or material improvements.

46. A practically identical result would follow from the other course alluded to. Experience, now sufficiently prolonged, has shown satisfactorily that the gradual growth of the income of the reproductive public works, undertaken of late years, has been sufficient to cover the interest charge that has simultaneously arisen on the sums borrowed to supply the capital required for the execution of these works, which has amounted on the average to between 3 and 4 millions yearly. The arrangements with the local governments, made or to be made on the plan initiated in March last, will have the effect of protecting the Imperial Treasury from all future charges on account of interest on the capital invested in the various works already carried out for the purpose of giving increased facilities for transport or irrigation.

47. The extension of this system in the future, as we contemplate, will secure a similar result as regards future outlay on such works. In other words, the provincial revenues will have to supply a sum, equal to the interest on all fresh capital thus expended, which, if the works be judiciously designed, executed, and managed, will be provided by the income they produce. The obligation thus imposed on the local

governments must, we think, have the effect of ensuring greater care in the selection of projects for execution, and greater care also in watching and developing the revenue to be obtained by the investments; so that we can see no reason for anticipating in the future any worse result than that which has followed our operations in the past, but rather, on the contrary, more favourable results may be expected. On the whole, not only should the necessary sum be provided without further taxation, but, after meeting all charges, a surplus of income should be forthcoming, which would add to the provincial resources.

48. Consequently, we hold that, if, without increasing the total sum which we have been in the habit of spending on reproductive works of late years, we supply say $1\frac{1}{2}$ millions yearly from the new taxes, and reduce the sum to be borrowed, year by year, by an equal amount, we may reasonably expect that the provincial revenues, to which the growing income of the works will be constantly added, will be able to supply the whole sum required to pay interest at the normal rate, say 4 per cent., on the whole of the capital investment, including both that obtained by borrowing and that taken from the new taxes. Thus, at the end of 10 years, on such a hypothesis, suppose that 15 millions had been borrowed and 15 millions applied from the new taxes, or in all 30 millions, the income of the works would have increased by at least 1,200,000*l.*, a sum sufficient to cover the interest at 4 per cent. on the whole capital; and of this, 600,000*l.* being required to discharge the interest on the debt created, the remaining 600,000*l.* would be at the disposal of the Government, giving an increase of resources identical with that obtained by the direct discharge of debt.

49. The soundness of this argument, of course, depends on the assumption that the local governments will be able to meet the obligations that it is proposed to impose on them, of making good to the Imperial Government, year by year, a *bond fide* increase of revenue, or reduction of charge, equal to the interest on the amount supplied to them for works of improvement from the new taxes. We see no reason to doubt the practicability of ensuring such a result, and it would, at all times, be in our power to refuse grants from the newly-created resources, if we were not satisfied that the necessary condition underlying such grants could be complied with.

50. To carry out in actual practice such a system as we have described, the procedure would be somewhat as follows: The Government of India might authorise the application of a suitable sum from the proceeds of the new taxes of any province to the construction of approved projects for protective works of irrigation or communication, and grant an additional sum to be obtained by borrowing, on the understanding that the provincial revenues made good to the Government of India the normal rate of interest on the whole of the capital thus invested, including both that borrowed and that contributed from taxation. In any case, of course, the actual allotments would be regulated by the actual requirements and capacities of the several provinces.

51. Thus the sums raised locally by the special taxes now imposed might be virtually laid out locally, without any sacrifice of the essential condition that such outlay either should directly serve to reduce the dead weight on the revenues caused by past famines, or should afford the means of meeting similar future expenditure.

52. Nor would this be the only direction in which provincial interests would be advanced under such a system. For it would be our wish to make the arrangements with the provincial governments so far favourable to them that, while they secured from the proceeds of the new taxes the relief we required, some margin might be allowed which would remain at the unfettered disposal of those governments for the special object in view. Our estimates of the proceeds of the new taxes are necessarily somewhat imperfect, and, if such a result as that to which we have last referred could be gained without objectionable pressure, it could not fail to create a greater interest in the productiveness of the taxes, both on the part of the local governments and the local communities. Moreover, the imposition of the new taxes locally will bring home the sense of the local obligation more fully than would have been the case if the taxes had been treated as imperial, and the propriety of leaving them under provincial management—a matter of considerable administrative importance—will be more readily acknowledged.

53. We also see promise of further relief to the central government in respect to the debt to be hereafter incurred for prosecuting works of local utility. Steps which have been attended with marked success have already been taken, both in Bengal and the

North-western Provinces, for obtaining subscriptions in the localities interested in projected works of this class. We are considering how best to develop and systematize such a means of providing the capital that may properly be borrowed for works of improvement, and whether local contributions may not be successfully sought under conditions which should interest the classes more directly benefited by such works, not only in the provision of the funds required for their prosecution, but in their proper management when completed, and the development of the revenue they produce.

54. To these observations we desire to add that, while we regard the prosecution of railways and works of irrigation as affording the best material aids with which to combat the effects of extreme drought, we have not lost sight of the obligations that rest upon us to maintain in all their strictness the salutary rules that have been laid down by Her Majesty's Government for the regulation of the outlay of borrowed funds on such objects. We are no less strongly impressed than your Lordship that no really useful result can be looked for from undertaking works of questionable financial value, and we see with equal clearness the danger of attempting to force the provision of capital for these purposes in a shape that shall add to the obligations of India payable in England. Her Majesty's Government may, therefore, confidently rely upon our adhering to the sound principles that have been accepted in relation to this important subject, and may be assured that, great as our anxiety is to do all in our power to secure to this great country comparative immunity from the terrible effects of extreme and widely extended drought, the past year of suffering has only served to impress upon us more strongly than ever that, for the attainment of what we desire, a thoroughly sound financial system is an essential preliminary, against any departure from which we must most carefully guard.

55. In conclusion, we desire to draw your Lordship's particular attention to the following remarks in Sir John Strachey's speech, which express the views of our Government on a very important aspect of the subjects treated in this Despatch: "It is the firm intention of the present Government," he said, "to apply the funds now to be provided for this special purpose strictly to the exclusive objects which they were designed to secure. In such matters, no doubt, Governments cannot fetter their successors, and nothing that we could now say or do would prevent the application of this fund to other purposes. Without thinking of a future far removed from us, events might of course happen which would render it impracticable even for us, who have designed these measures, to maintain our present resolutions."

"So far, however, as we can now speak for the future, the Government of India intends to keep this million and a half as an insurance against famine alone. In saying this, I should explain that we do not contemplate the constitution of any separate statutory fund, as such a course would be attended with many useless and inconvenient complications, without giving any real security. Unless, then, it should be proved hereafter by experience that the annual appropriation of a smaller sum from our revenues will give to the country the protection which it requires, we consider that the estimates of every year ought to make provision for religiously applying the sum I have mentioned to this sole purpose; and I hope that no desire to carry out any administrative improvement, however urgent, or any fiscal reform, however wise, will tempt the Government to neglect this sacred trust."

We have, &c.

LYTTON.

F. P. HAINES.

A. CLARKE.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

Enclosure in No. 127.

EXTRACT of REPORT of the DEBATE in the LEGISLATIVE COUNCIL of the GOVERNMENT of INDIA on the 27th day of December 1877.

The Honourable Sir J. Strachey said,—

“My Lord,—In the financial statement for 1877–78, which I had the honour to present to your Excellency and this Council on the 15th of March last, I dwelt at some length upon the necessity imposed upon the Government of India of bringing the public revenues and expenditure into a condition of proper equilibrium, and I indicated that it would be our duty, at some future time, to propose further measures for accomplishing this object. The events that have occurred since that time will have prepared every one for the conclusion that the urgency of the case has become greater with each succeeding month of the prolonged crisis through which the country has been passing. The Government fully recognises the fact that the community at large is not less interested in the measures that it has been deemed expedient to adopt, than are the members of the Government on whom devolves the responsibility for framing those measures, and your Excellency has, I may be allowed to say, wisely determined, therefore, to lose no time in introducing before the Council the Bills which are necessary for obtaining the requisite legislative authority for carrying out its policy. This course will give ample time for that full consideration of our measures which it might have been difficult to secure if we had waited till a later part of the season.

“I reminded the Council, at the time to which I have referred, that, after the famine of 1874 in Northern Bengal, the Government of Lord Northbrook declared that such calamities could no longer be treated as abnormal or exceptional, and that sound financial principles required that the grave obligations entailed by famine upon the Government should be explicitly recognised and provided for among the ordinary charges of the State. Within the previous 10 years three serious famines had occurred. The drought of 1866 led to famine in Behár and Orissa. The failure of the rainy season in 1868 and 1869 caused severe distress over a great tract of country in Northern India; and in 1874 came the famine in Bengal. As it could not be doubted that India was liable to the periodical and not unfrequent occurrence of such calamities, Lord Northbrook most justly concluded that to attempt to meet them merely by borrowing without a simultaneous increase of income would be financially ruinous; it was out of the question to think of meeting, with borrowed money, the charges which we should have to incur in future on their account. Whatever means, he said, we may take to obviate or mitigate them, it must, under present circumstances, be looked upon as inevitable that famines will from time to time occur.

“He therefore determined that, to enable the State to meet the serious obligation of preventing and relieving famine, it was necessary to secure, in prosperous times, a substantial surplus of revenue over expenditure, in addition to that necessary margin which a prudent administration demands for the ordinary requirements of the State. Due provision would thus be made for meeting occasional expenditure upon famine. He argued that, if this surplus were devoted to the reduction of debt or to preventing the increase of debt for the construction of reproductive public works in years of ordinary prosperity, there would be no objection to the public expenditure exceeding the public revenue in occasional years of adversity, so that we might then, without objection, meet the charges on account of famine from borrowed funds, to the full extent to which our surplus had permitted the discharge of debt or prevented its increase.

“The Secretary of State agreed with Lord Northbrook’s Government that the periodical occurrence of famine ought to enter into the calculation of the Government of India when making provision for its ordinary wants from year to year, and that such a surplus should be provided in each year as would make a sensible impression on the debt incurred in times of famine. Her Majesty’s Government have recently re-affirmed this principle.

“I was authorised, in making my financial statement, to declare the entire concurrence of your Excellency’s Government in this policy, the wisdom of which had again been painfully enforced upon us by the famine in Southern India, but which no sufficient steps had till then been taken to carry out. A careful examination of the accounts of the seven years ending on the 31st March 1876, a period long enough to illustrate fairly the state of our finances, made it plain not only that we had, when I spoke, made no proper provision for the cost of famines, but that we possessed no true surplus of revenue over expenditure to cover the many contingencies to which a great country is exposed. As I then said, the financial administration of our predecessors had been most careful and economical. They acted in accordance with the facts which their experience appeared to supply, and with that reluctance to add to the public burdens which has always most properly characterised the action of the Indian Government. But our fuller information had made it manifest, beyond the possibility of dispute, that, whether by retrenchment of expenditure, or development of the existing sources of revenue, or fresh taxation, or by a combination of these means, a substantial improvement of our financial position was indispensable; and we only postponed the adoption of vigorous measures to this end, until returning prosperity should enable the country to undertake fresh burdens with less difficulty, and allow the local governments more leisure to afford us their counsel and co-operation. Subsequent events have only served to show more clearly the urgency of our need. The year 1877 has been a year of gloom and difficulty to multitudes of the people and of deep anxiety to the Government. In consequence of the delay in the coming of the summer rains, the distress in Southern India was prolonged much beyond the period which, it had been hoped, would terminate it. We had estimated the cost of the famine at five and a quarter millions, but this sum had subsequently to be raised to our present estimate of nine and a quarter millions. In addition to the scarcity in the south, a fresh danger arose in the north, from the very insufficient rainfall in that quarter. The

autumn crops over a great part of Upper India were almost wholly lost, no such complete failure having occurred in the North-western Provinces since 1837-38. The drought extended into Rājputana and Central India, and there are few provinces in India which did not suffer more or less loss. At one time there were imminent apprehensions that it would be impossible to sow the winter crops of Upper India, and that another famine of great severity was there impending. Happily, the rain in the beginning of October saved India from this peril; abundant falls have already almost obliterated famine in our Southern Provinces, and the timely rainfall of the present month of December has removed our remaining anxiety for Northern India. We may reasonably hope that our long continued adversity will now be succeeded by a season of national prosperity.

"I must not turn aside now to speak of the lessons for our future guidance, which, I hope, will be derived from the dearly-bought experience of the recent famine. But I hope that, upon a retrospect of the famine campaign of 1876-77, it will be found that former experience was not thrown away; that there has been a better application of national resources, and that better fruits may be expected from the famine expenditure than on former occasions. Doubtless, we are far from having completely learnt the most economical or the most efficient method of dealing with these calamities. However, it is not my present object to discuss these matters. What I have to do is, now that we are in a condition to face the question, to redeem the pledge I before gave, and to propose the measures which seem to the Government necessary in order to place the finances in a proper condition.

"To enable the Council and the country fully to understand the true position of affairs, it is necessary for me to state, with such precision as is possible, the actual cost of recent famines, in order that an estimate may be made of the amount of financial relief which must be obtained before the Treasury can permanently undertake this burden. The task is not so easy as might at first sight appear.

"I am not able to compute with certainty the cost of the famine of 1866 in Orissa, but it has been estimated at 1,700,000*l.* From various causes, however, the measures of relief then taken fell so far short of what would now be deemed necessary, that we could not base upon them any calculations for the future. Even as regards the Bengal famine of 1874, and the famine in Southern India in 1876 and 1877, it will be obvious, on reflection, that it must be long before the accounts of the receipts and disbursements can be completed, and that, to the last, many of the component items must be estimates rather than facts. The main expenditure is, or ought to be, for the wages of labour upon public works; it must be always a matter of estimate how much of this expenditure is infructuous and a dead-weight famine charge, and how much may be fairly reproductive. The extra expenditure in consequence of the famine upon the several services, military and civil, may be more precisely ascertained. On the other side, the revenue lost under many heads of account, and the net revenue gained upon the railways, although real and important elements in the accounts of a famine, can never be exactly known; the railway gains operate more or less as a set-off against the charges, but all the amounts will to the last be open to much doubt. Then we have loans or advances made to other governments, public bodies, or individuals, which may or may not be repaid; and such large items as the provision of additional rolling stock for railways and the like, which may long be a cause of additional charge.

"Without troubling the Council with further details, I have said enough to show that the actual cost of a famine must, to the end, be the subject of estimate rather than account.

"The Bengal famine of 1874 is, in this way, estimated to have cost 6,750,000*l.*, and the famine in Southern India, which in March last was expected to cost 5,250,000*l.*, is now estimated to cost 9,250,000*l.*, making a charge of 16,000,000*l.* for famine relief in the five years from 1873 to 1878.

"The serious character of such a fact can hardly be exaggerated; its gravity becomes more apparent when it is understood that, by the end of the current year, the public debt of India will be larger by at least 16,000,000*l.*, and the annual charge for interest by 640,000*l.* than they would have been if there had been no famine in these five years. I make no attempt to estimate the vast waste of private capital due to the same causes.

"Happily, there are grounds for believing that this has been a period of exceptional disaster. Famines are, indeed, so far from being uncommon occurrences in India, that scarcely a year passes without distress in some part of the country; but their frequency, severity, and extent during the last few years have exceeded what past experience would lead us to expect hereafter. Moreover, we trust that we are constantly learning more of the best and most economical way of dealing with these calamities; that every famine wisely administered will leave behind it works which will tend to make similar future difficulties less serious and less costly; that the material improvements we otherwise continue to make will enable the country to bear the effects of drought more and more easily, and we may hope that the cost of famine relief will hence be less in the future than it has been in the past.

"Making all allowances for these considerations, I cannot now venture to estimate the yearly average cost of famines in loss of revenue and actual expenditure at less than 1,500,000*l.* This amount has necessarily been arrived at in a somewhat arbitrary manner, and it will be seen to correspond approximately with the sum that would be requisite to distribute the charges of the last five years over a period of 10 years. It will remain for the Government in the future to reconsider, from time to time, the practical result of the assumption which we are now constrained to make on what are necessarily imperfect grounds, and to take all requisite steps in the way of correcting any error into which further experience may indicate that we have fallen, either in the one direction or the other.

"What, then, we have now to do is to improve our financial condition as it was at the beginning of the present year, by 1,500,000*l.* a year on account of famine alone. This, however, is not all.

"Successive Secretaries of State have urged the Government of India to provide a margin on our annual estimates of from half a million to a million sterling, some such moderate surplus on the ordinary account being obviously necessary to enable us to meet those contingencies to which every great Government is always liable, and which cannot be foreseen, and to provide the means of carrying out administrative and other improvements. The latest injunction upon this subject was given in a Despatch of October 1877, reviewing the financial arrangements of the present year, which contained also the renewed recognition by Her Majesty's Government of the duty of making definite provision for the cost of famine. Inasmuch, therefore, as at the time when the present famine began, our income did little more than suffice to meet the charges, even if that was secured, I consider that our revenues were on the whole about 2,000,000*l.* a year short of what was necessary. We required 1,500,000*l.* for famine, and, at the very least, 500,000*l.* of ordinary surplus.

"In considering how to discharge its weighty responsibility for securing financial equilibrium in such circumstances, the Government of India first turned its attention to the possibility of effecting reductions in the public expenditure.

"Excluding famine relief and public works treated as extraordinary, the yearly gross cost of the administration of British India is now between 48,000,000*l.* and 49,000,000*l.*, and the net cost, after subtracting from these sums the amounts that may be more properly treated as deductions from charge than receipts of income, is between 37,000,000*l.* and 38,000,000*l.* These are large sums in themselves; but, if we consider the vastness of the empire, which includes a territory little less than the whole of Europe excluding Russia, the costliness of a foreign administration, especially of a foreign military equipment, in an uncongenial climate, and, what is more pleasant to contemplate, the growing intelligence, the growing civilisation, and therefore the growing wants of the people, I do not think that the cost of the administration can be deemed extravagant.

"In the Minute attached to my financial statement, I calculated the true net expenditure upon the army in each of the years 1876-77 and 1877-78 to be upwards of 17,000,000*l.*, or nearly 45 per cent. of the whole net expenditure of the empire, excluding famine and reproductive works. Of the remaining 21,000,000*l.*, about 6,750,000*l.* is for net interest on the public debt, and on the capital of the guaranteed railways after setting off their net traffic earnings; and 3,750,000*l.* is the net grant for ordinary public works. There remains net 10,500,000*l.* for the general civil administration and government of our vast population, which amounts to 185,000,000, excluding the people of our feudatory states. No great saving can be expected in this part of the public expenditure.

"Nevertheless, as is well known to the Council, efforts to reduce the civil charges have never been wanting. On the contrary, they have been made persistently again and again, and will certainly not now be abandoned. I had the satisfaction of showing in March last that, excluding famine relief and loss by exchange, an element practically beyond our control, a reduction of the net civil expenditure had been effected in the seven years from 1869 to 1876 amounting to no less than 1,500,000*l.* a year. This fact justifies me in asking the Council and the public to trust in the determination of the Government of India to spare no pains to keep down the demands upon the public treasury for the civil services.

"In giving effect to this policy in the past, the Government of India has found a powerful instrument in the system of provincial finance introduced by the Earl of Mayo in 1870, under which the Government of India renounced interference in the detailed administration of many services, granting the local governments a permanent but fixed income to cover their cost. The saving to the Imperial Treasury effected upon the first introduction of this scheme was 330,000*l.* a year. Its further development this year has already produced an additional saving of 169,000*l.* Thus a positive saving to the taxpayer of nearly 500,000*l.* has already resulted from this policy, and this will certainly be increased hereafter. Moreover, the demands from the local governments on account of these services, as I showed in March, had, till the change of system was adopted, been constantly growing; the cost of the services transferred in 1870 had risen from 5,100,000*l.* in 1863-64 to upwards of 6,000,000*l.* in 1869-70. All further increase of such demands has been stopped, if not for ever, at least to a great extent and for a long time to come.

"The public may very well be financially content with the arrangements thus made. Under them the greater part of the civil services proper, costing, as I have estimated, with ordinary public works, 14,250,000*l.*, either have already been, or will shortly be, entrusted with fixed grants to the provincial governments. In this branch of the public outlay it is, I am satisfied, visionary to think of obtaining any important reduction. It is true that irresponsible persons find it easy to declaim as to the possibility of enforcing large economies. But I fearlessly challenge any one having a sufficient knowledge of the real requirements of the administration, to indicate any branch of the civil services of which it would not be far easier to give substantial proofs that more money is required for it than the converse. No one, I think, can doubt that I personally should feel my task rendered infinitely lighter and more agreeable if I could see relief in this direction, or that I should have hesitated to seek it there, if it had been really practicable.

"As to that part of the expenditure which arises from the payment of interest on ordinary debt, and on capital laid out on productive public works, as well as that which is required for the current demands for public works, a little consideration will show that, at all events, no reduction of charge can be looked for. The heavy burden of the recent famine has added not far from 400,000*l.* to the charges on account of our ordinary debt. Further, so long as a policy prevails which requires of us the prosecution of works of internal improvement on a scale commensurate with the growing wants of the agriculture and commerce of the country, a policy which we strongly hold, we cannot,

for the present at least, safely look for any diminution of charge for interest on this account. The charge for the guaranteed railways, at one time so onerous, has of late years, it is true, diminished rapidly, so that we have a good hope that in the current year it may disappear altogether. This last result, if it occurs, will no doubt be to some extent rather apparent than real, being attributable largely to the famine traffic, which is calculated to have added altogether about 600,000*l.* to the Government share of the net traffic earnings of the railways, 300,000*l.* of which falls into the current year. It would be too much, however, to expect that we shall be, as yet, finally emancipated from all burdens on account of these great undertakings; but we may confidently hope that the charge will continue to diminish, and will eventually disappear altogether; the fact is full of hope for India. At the same time, it must be remembered that we are constantly undertaking fresh and heavy burdens of this character, so that it is only prudent to reserve any margin which we may obtain from the income of our existing public works as security for the out-turn of future works, which, however carefully devised, may sometimes disappoint expectations. Neither can any diminution be hoped for in the ordinary public works charges, which include the necessarily increasing burdens due to meeting the constantly increasing wants of our administration and demands for works of internal communication and irrigation, any falling off in the efficacy of which would instantly re-act on the public security and prosperity. The transfer of the bulk of this class of objects to provincial management provides the best, indeed the only possible, safeguard against the undue increase of charge on their account, while it gives due protection to the interests they are designed to subserve.

"Turning to the military expenditure, I examined in some detail in my Minute laid before the Council on the 15th March the accounts of the army. I showed that it now costs upwards of 17,000,000*l.* a year; that its cost has increased by upwards of 1,000,000*l.* since 1875-76; and that a large share of this increase is in the expenditure recorded in the home accounts.

"I need not recapitulate the details thus reviewed, but I will repeat the conclusion which I then stated as follows:—

"The Government of India must certainly endeavour to find the means of meeting the increased military charges, some of which are apparently inevitable, by economies in other departments of the military service; this endeavour must be largely dependent for success upon the support of Her Majesty's Government. I do not assert that the whole of the additional expenditure on the army has not been incurred for excellent objects, or that it could have been avoided; but, that the Indian revenues are liable to have great charges thrown upon them without the Government of India being consulted, and almost without any power of remonstrance, is a fact, the gravity of which can hardly be exaggerated."

"We have not neglected this matter during the year; it has been the subject of elaborate inquiry, the results of which have still to be considered. Whether we shall be able to carry out reductions which some high authorities have advocated, depends upon considerations, the effect of which on the ultimate conclusions of the Government I cannot now foresee. Judging from the past, we may esteem ourselves fortunate if further additions to the home military charges are not thrown upon us; but what is possible on our part to prevent such a result shall certainly be done. We know that we may rely upon the support of the Secretary of State in securing this object, and we may hope that some reconsideration of the burden thrown upon us on account of this branch of charge may be found possible, which shall lead to an arrangement more consistent with our own views of what is equitable to India. Meanwhile, for its immediate need, the Government of India can plainly not count upon any material saving in our military charges.

"Present reduction of expenditure thus appearing impracticable, we next examined carefully the prospects of our present sources of revenue, but found no grounds for reckoning upon any certain material increase in their yield. The revenue from customs duties, both on inland and sea-borne trade, so far from increasing, must rather be expected to diminish. How soon, and to what extent, we shall be able to carry out the important, and in my own opinion most necessary, reform in regard to the cotton duties, which has now been enjoined upon us by Her Majesty's Government, supported by a unanimous vote of the House of Commons, and other reforms less disputed and not less urgent, I am now unable to foresee; but at least it is unlikely that the Government of India will be able to increase its customs revenues. The imposition of an excise duty on Indian cotton manufactures has not appeared to us to call for serious attention. For, though I might recognise the force of arguments in favour of such taxation if the import duties on foreign cotton goods were to be maintained as a permanent part of our fiscal system, yet in the face of the repeated and plainly expressed views of Her Majesty's Government and Parliament the matter presents itself in a totally different aspect.

"The measures which I shall presently propose for the equalisation and better collection of the salt tax will, if sanctioned by the Council, doubtless yield us, for the time, an increase of revenue; but, as I shall explain further on, this increase cannot be looked on as permanent, and I must decline to reckon it among the permanent assets to be set against the liabilities for which we have now to provide. The eventual object of our policy as regards salt is rather the reduction than the enhancement of the duty, and to enable the people to procure a full supply of salt at the cheapest rate consistent with our financial necessities.

"The greater part of the increase which is to be anticipated during the next few years from the normal growth of the revenues under the heads of excise and stamps, we have discounted in the arrangements for the administration by the provincial governments of these branches of the revenue; and, though some further improvement in the revenue from stamps is expected to follow upon the consolidation and revision of the law now under the consideration of this Council, the amount is uncertain, and not likely to be important.

"The increased revenues which the local governments have undertaken to provide with effect from the beginning of this year amount already to 78,000*l.* a year.

"The recent measures for extending the interests and responsibilities of the provincial governments in respect to the financial administration will doubtless give considerable relief to the Imperial Exchequer. This great reform is not yet complete, and its precise results cannot yet be stated, but it may be expected in all to improve the balance sheet by a sum not far from 400,000*l.*, and no portion of this sum is derived from fresh taxation. This is irrespective of the 330,000*l.* which was the first-fruit of Lord Mayo's original measure; and thus we shall have gained, without imposing any fresh burdens on the country, a virtual addition of about three-quarters of a million to our annual resources. Your Lordship and the Council will agree with me in thinking it highly satisfactory that such important financial advantages should have been produced by a policy from which we anticipate a great increase of administrative efficiency.

"Before proceeding further, I wish to refer to suggestions which have been made in England, that, upon occasions of urgent need, assistance should be given to British India from the public resources of the United Kingdom.

"When the humanity of our countrymen at home prompts them to offer charitable assistance to their suffering fellow-subjects here in the time of their distress, we welcome the generous impulse, because such liberality must tend to unite the people of India to those of Great Britain by the bonds of gratitude. It will be interesting to the Council to know that, besides large charities distributed through private channels, the Madras Famine Committee has already received in this way no less a sum than 700,000*l.*, which is expected ultimately to be increased to nearly 750,000*l.* Of the sum already received, 600,000*l.* came from the United Kingdom, and 80,000*l.* from British Colonies. The Indian subscriptions have amounted to 23,000*l.* As Englishmen we are proud of such splendid national generosity.

"But for my own part I am not prepared to say that I should welcome as enthusiastically a grant from the British exchequer in support of our burdened revenues. I appreciate the kindly spirit which prompted the thought, but shall not be sorry if Her Majesty's Government do not see their way to propose any such assignment.

"I believe that India is well able to bear her own burdens, and we should not be wise so far to sacrifice her financial independence as to accept assistance even from England. National self-reliance is essential for national self-respect, and, whatever differences of opinion there may be as to the best way of meeting our difficulties, there will, I am confident, be perfect unanimity that they must be borne by ourselves, and not by our neighbours. I concur, then, with those friends of India who at home have deprecated the grant of such assistance, and would rather urge that, in dealing with questions which arise when the separate pecuniary interests of the two countries come into apparent conflict, as, for instance, in apportioning the cost of the British army between England and India, England should be strictly just, may I not even say that she should be generous, to this comparatively poor country. India may claim such generous justice without sacrificing her national self-respect, and I venture to believe that she will not claim it in vain.

"I will not detain the Council by detailing the several methods of taxation which we have considered in our present need, only to reject them. We have thought of taxes on tobacco, of succession duties, of taxes on marriage expenses, and of other taxes which I will not now enumerate. Some of these appear to me to be in themselves open to little objection, but none of them would give us the increased revenue which we require, and the Government has felt that a time when we are proposing to place fresh burdens on the people is not opportune for trying new experiments in taxation.

"One tax remains of which I must necessarily speak. I refer to the income tax.

"I said last March that, when the income tax disappeared, I regretted its loss, but that the Government of India had entertained no thought of restoring it. In spite of all the rumours that we have heard, this is still true. I anticipate no great dissatisfaction at the announcement I now make of the decision of the Government, that the re-imposition of the income tax shall not now be proposed. It will not be necessary, I think, for me to enter at any length on the grounds for this decision. Although an income tax has been advocated in many quarters, the Government has not had any idea of adopting such advice. And for myself I will add that, though I was a supporter of that tax while it remained in force, and though I am far from saying that circumstances may not hereafter arise which will justify or compel its restoration, yet I have not failed to recognise the fact that at the present time such a course would neither be politic nor just. I think, however, that it should be remembered that, if the measures which I am about to propose to the Council be not approved, an income tax is the sole alternative that remains; I at least can see no other. Much more than the sum which we now require has been raised before by an income tax, and there can be no question that this could be done again.

"I have already briefly stated to the Council the reasons which have led the Government to the opinion that at the beginning of the present famine we required an improvement of about 2,000,000*l.* a year in our financial position; 1,500,000*l.* on account of famine, and 500,000*l.* as a margin to meet ordinary contingencies. A few more words of explanation may, perhaps, usefully be added.

"The accounts of the actual revenue and expenditure of the empire during the seven years ending with 1875-76 show that, excluding the cost of famine relief, we had just managed to pay our way. These results having been based on the actual accounts of seven years, are far more valuable than any which we could draw from an examination of the figures for any particular year; but the estimates for the current year, which I laid before the Council last March, illustrate the same fact, that before the commencement of the present famine our finances might be considered to be nearly in a condition of equilibrium. The estimates showed that, putting aside expenditure on famine, we expected to end the year with a surplus of about 900,000*l.* But of this sum 520,000*l.* was provided by the measures

taken at the beginning of the year for increasing our income, so that, if there had been no such measures, there would have been an apparent surplus of only about 400,000l. The famine, however, will probably lead to a permanent addition of nearly 400,000l. a year to our annual charges on account of interest on debt, so that the apparent surplus of 400,000l. vanishes. This result, however, has still to be further modified, if we seek to arrive at the balance between the present normal or average annual income and charge from the estimates of this single year. Correcting the figures by making allowances for receipts which do not constitute such normal income and payments not having a character of normal charge, we should arrive at a deficit of about a quarter of a million for the current year, instead of any surplus. These figures, based on the estimates of a single year, are not worth very much, but I think they serve usefully to illustrate the fact which I desire to make plain to the Council, that, apart from the measures taken in March last, our annual receipts were hardly sufficient to cover our expenditure.

"I will now explain what we have done already towards providing the 1,500,000l. for famine, and what we propose to do hereafter.

"The measures of financial decentralisation taken during the present year will, as I have stated to the Council, give, when they are complete, a relief of some 400,000l. a year without any addition to the burdens of the people. Thus, out of the 1,500,000l., we have already provided 400,000l. in the most satisfactory way possible, and we have only to provide the remaining sum of 1,100,000l. It being, in our judgment, impossible to obtain any substantial portion of this amount by other means, it had to be raised by fresh taxation. There has, however, already been imposed in the current year, by the measures taken last March, additional taxation to the extent of 300,000l. in the Bengal Presidency. This was the only part of India with which we then could deal, because famine was raging in Madras and Bombay. Thus there now only remains for us to provide on account of famine about 800,000l. by new taxation. I will now tell the Council how it is proposed to obtain this money, first speaking of the measures contemplated for the Bengal Presidency.

"When I endeavoured to explain to the Council nine months ago the measures taken by the Government at the beginning of the present financial year, I pointed out that the essential principles underlying the whole of the changes of system then made were these: We asserted the necessity of enforcing, so far as this was practicable, the responsibility of every great province of the empire for meeting its own local wants; we gave to the local governments largely increased powers; we gave them, for the first time, a direct interest in the development of the revenues, and we gave them, at the same time, strong incentives to economy. And among the responsibilities thus transferred to the local governments we included one, perhaps the greatest and the most important of all, that of providing the means of protecting the people of their own provinces against famine, and of meeting, to the full extent of what was possible, the cost of relief when famine actually occurred. To this policy we firmly adhere. It has received the cordial approval of Her Majesty's Government in its main outlines, and through its extension and development it is that we propose to apply the measures we now contemplate.

"The measures and the changes of system which the adoption of such a policy involved were too large and too numerous to be carried out all at once, and, with famine over a great portion of Southern and Western India, very much had to be left undone which might otherwise have been undertaken. A great step, however, was made. Irrigation works and railways are the principal material means by which famine can be prevented and relieved. The Government of India declared that each province must, to the utmost of its power, pay for works of this kind undertaken for its own protection, and we have made fair progress in the actual enforcement of this rule.

"In Bengal and in the North-western Provinces the whole responsibility for the cost incurred in the past and to be incurred in the future, on the construction of canals and railways of provincial utility, was imposed on the local governments, and accepted by them with thorough and loyal approval. In those provinces our measures, so far as they relate to the provision of means for meeting the cost of public works, have been already carried out, and the time is not distant when they will be everywhere in operation.

"To prevent or to mitigate the worst effects of drought, and so to remove within certain limits the risk of famine, by the construction of canals and railways, is a comparatively easy task. It is mainly a question of money. To relieve famines when they have actually come upon us (and in the present condition of India their occurrence from time to time is inevitable) is far more difficult and far more costly. How difficult and costly it is we have unfortunately had of late years ample experience.

"The necessity of localising, so far as may be practicable, the responsibility of the people in every part of India for providing the means of their own support in time of scarcity has, as the Council is aware, been repeatedly urged by the Secretary of State, and acknowledged by the Government of India. To use the words of a Despatch from Lord Salisbury relating to the Bengal famine, 'While we fully admit the obligation which rests upon the State of preserving the lives of the people, it cannot be doubted that the primary responsibility for providing for their own support ought to rest upon the people themselves. The duty of the State does not extend further than to see that the needful means are supplied for giving effect to this principle, and for distributing the local burdens arising from its practical application in the manner which shall be most equitable and least onerous to those who have to bear them.'

"This question of how local resources can best be made to meet local wants in time of famine is obviously one of extreme difficulty. When I made my last financial statement, I said that the Government did not pretend to have solved it, and that we had, at best, only taken a step in the right direction, by throwing upon each province the responsibility for meeting the charges necessary for providing the public works required for the protection against famine of its own people. I said that we had thus given practical recognition to the principle on which the Secretary of State had insisted,

and had obtained, to a certain extent, though far from completely, that safeguard for the imperial revenues which is so necessary. The Government has continued to give to this subject its anxious attention. The problem is still far from being fully solved, but I will now explain to the Council the further measures which we propose to take, by which, while re-affirming the principle of local responsibility, we hope by degrees to place the country in the best possible position to avert the extreme consequences of aggravated seasons of drought, while we obtain that safeguard for the imperial revenues of which I have just been speaking.

"If we were simply to lay down a rule that every province shall meet hereafter from its own separate resources the cost of each particular famine by which it has been attacked, the rule would be one which it would be often impossible to enforce. What is necessary, therefore, is to establish some system of mutual assurance, as I may term it, under which all parts of the country, while primarily responsible for supplying the wants which arise within their own area, will contribute towards the relief of other parts on which famine may actually fall. In this spirit our present proposals are framed. Resources will be created from which the central authority will draw whatever sum is found to be requisite to discharge the obligations arising from what I may term the dead weight of famine expenditure. We can hardly now anticipate that, when this has been done, our exigencies will be found to have left much margin; yet, so far as it may be obtained, the provincial governments will derive from it increased means for carrying out the new duties thrown upon them, of making financial provision for the works of improvement best suited to ward off the direct effects of scarcity and dangers of ensuing famine.

"There is certainly no class in the whole community which might not equitably be made to contribute for such a purpose as this, and, if I were now advocating the imposition of a wide-spread income tax, from which no sort of property or income should escape, it would not be difficult to find excellent reasons for the proposal. The expediency or in expediency of an income tax is, however, a question which, as I have already said, I do not now think it necessary to discuss. It cannot, I think, be denied, even by the warmest supporters of such a tax, that there are at the present time special causes which would render its imposition undesirable, and the Government believes that the money which we want may be obtained with less objection in another way.

"When in March last the Government proposed to improve our financial position, it showed by the measures which it introduced, and which have since become law, that there were, in its opinion, two great classes of the community on which the duty of contributing for the prevention of famine more especially fell. The mere fact that the agricultural classes constitute by far the greater portion of the population, and, when famine occurs, form the great majority of those who require relief, is alone sufficient to show that these classes ought to pay their quota of the sum required for their own protection. To say that the people (to quote again the words of the Secretary of State) ought 'themselves to provide for their own support and well-being,' and then to say that the agricultural classes shall be exempted from payment, would be equivalent to saying that the principle laid down was to remain a dead letter. It would have really no meaning at all.

"The next very numerous class, although of course a small class compared to that of the agriculturists, is the class of traders and artisans. Although prosperous in ordinary times, this is a class on which, when famine occurs, pressure is the first to fall, and it ought to contribute for its own protection. Not only does it now contribute nothing for this purpose, but it is notorious that, throughout nearly the whole of India, although there is no class which benefits so greatly from our rule, there is none which bears so insignificant a share of the expenses of the State. Nor, I think, can we avoid the conclusion that there is hardly any part of India which does not in one shape or other, or at some time, either feel directly the pressure of the severe droughts to which the country as a whole is liable, or, by indirectly deriving benefits from the rise of prices consequent on local scarcity, does not render itself justly subject to contributing to the common insurance fund.

"The justice of imposing new burdens on the agricultural classes will possibly be more questioned than that of imposing them on the traders. I do not deny that there may be some parts of India where the land revenue is so high that it would be unwise to make fresh demands upon the land; but I confidently assert that this is not the case in those provinces with which we are now proposing to deal. There is no greater, though no commoner, mistake than to suppose that, because the land in India yields two-fifths of the entire revenues of the State, the part of the community that derives its support from agriculture contributes an unfairly large proportion of the public burdens. The ordinary misconceptions on this point arise from forgetfulness of the fact that the greater part of our land revenue is not taxation, but rent paid to the State as proprietor of the land, rent which, in European countries, would be absorbed by landlords with exclusive private rights of property, but which in India, by immemorial custom, is enjoyed by the State as the sole proprietor, or as a joint proprietor with others. There are great differences of opinion among high economic authorities as to whether this state of things is good or bad; but such differences rather refer to the secondary results than to any question of the ultimate rights of property involved, which, like all other such rights, are essentially based on established custom. In my own belief, however, India is fortunate in deriving so large a portion of her public revenues from such a source. It spares her the necessity of heavy taxation, and, provided, of course, that we do not rack-rent the land, and provided that we give to private proprietors and tenants security of tenure and an ample and assured margin of profit, India will, I think, never regret the conditions under which her landed property is held.

"I am sure that there is no one in this Council who doubts the great and increasing prosperity of the agricultural classes in nearly all parts of Northern India, which I may speak of as the Bengal Presidency. I need not speak of the permanently settled districts of Bengal proper, where the land revenue is so small that it has often become, I may say without exaggeration, a hardly appreciable burden. In the temporarily settled provinces of Upper India the revenue assessments were, even

when they were originally made, almost everywhere moderate; and they have been made with an earnest and scrupulous desire to strengthen and preserve the rights of private property to create a valuable property in the soil where none before existed, and to give to the agricultural classes generally security in their tenures and moderation in their rents.

"The demand of the State, which was originally light, has become far lighter since the settlements were made; pressure goes on diminishing as the country increases in prosperity. No class has benefited so immensely as the agricultural class from the great expenditure on the roads, railways, and canals, which have brought about a complete revolution in the condition of the country. As the Government of India wrote not long ago, communications of all kinds have been multiplied; markets have been created, enlarged, and rendered permanent; irrigation has ensured the produce and well-being of the people of wide tracts which in old times were periodically desolated by drought; prices at the same time have been continually rising, and under our permanent or long settlements the greater portion of the enhanced value of agricultural produce accrues to those who have an interest in the soil. There is certainly no reason, in the condition of the agricultural classes, why they should not bear their share of any necessary fresh taxation for the purpose of protecting themselves and the country against famine.

"It is quite certain, I may add, and this is practically one of the most important facts of all, that we could not raise the sum of money required, unless we make the agricultural classes contribute. We might of course levy our taxation upon them in a different form. We might, for instance, make a general increase to the salt tax. But this is a measure which I do not propose to discuss, and the Government considers it altogether out of the question. Or we might, as I before said, impose an income tax to which agricultural like all other incomes would be liable. Anyhow there can, in my opinion, be no doubt that, in some shape or other, the land ought to pay a portion of the new burdens.

"I am quite aware of the objections which have been, and will no doubt continue to be, urged against the imposition of fresh taxation on the class interested in the land. In respect to the permanently settled districts of Bengal, as well as to the temporarily settled districts of Northern India, we have for many years past been familiar with the claims which have been made to the effect that the settlement of the land revenue has debarred the State from imposing any additional burdens on the land. It was on this ground that the zemindars of Bengal objected to the application of the income tax to their profits; it was on similar grounds that they objected to the local road cess which was imposed a few years ago, and to the new cess which has lately been introduced in furtherance of the policy of localising the responsibility for meeting the cost of works required for the protection of the country against famine.

"There is certainly no question which has been more completely argued out than this, and I am sure that the Council will not wish me to enter again into any long discussion regarding it. These questions have not only been completely and repeatedly settled by the Government of India, but they have been finally closed by the distinct and positive decision of Her Majesty's Government. That decision has been declared, to the effect that the State has an undoubted right to impose on persons in possession of incomes derived from land, taxation separate and distinct from the ordinary land revenue, in order to meet the natural growth of the public requirements, local or otherwise. 'The levying of such rates,' the Secretary of State wrote, 'upon the holders of land, irrespective of the amount of their land assessment, involves no breach of faith upon the part of the Government, whether as regards holders of permanent or temporary tenures.' I may add that in the present case the essential conditions which were laid down by Her Majesty's Government when the Duke of Argyll was Secretary of State, regarding the circumstances in which such rates as these may properly be levied, are completely fulfilled, and it would be difficult to suggest any purpose for which they could be more equitably imposed.

"One of the main conditions laid down by Her Majesty's Government was this, that, when rates of this kind are levied at all, they ought, as far as possible, to be levied not only on the agricultural but on other classes also.

"If time allowed, I should like to read to the Council some remarks on this subject which were made by my distinguished predecessor, Sir William Muir, when he was Lieutenant-Governor of the North-western Provinces, in the debate in 1871, when the existing Local Rates Act became law. He was then justifying the imposition of local rates on the proprietors of land in the Benares districts, which are permanently settled, and he showed that this course was just, whether the revenue settlement was permanent or for a term of years, because other property than land was already taxed for similar purposes. He said that there were in the North-western Provinces municipalities in all the large towns, and that they raised between them an income of some 17 lakhs of rupees a year. These municipalities defray the cost of their police, their roads, their drainage, and their sanitation, and they contribute for education, dispensaries, vaccination, poorhouses, &c. These obligations are precisely similar to those for which under the existing law rates are levied on the land, and Sir William Muir justly maintained that the condition laid down by the Secretary of State was thus substantially fulfilled, that such taxation as this, when levied at all, should be imposed 'upon all holders of property equally, without distinction and without exemption;' and 'for the future,' Sir William Muir said, 'no further taxation on the land would be justified, unless some corresponding additional burden were placed on other property likewise.'

"While Sir William Muir urged very strongly and wisely the necessity of maintaining the inviolability of our revenue settlements, and declared that it would be a breach of the engagements of the State to step in and say to the landholders, 'Because,' to use his words, 'your profits are greater than they need be, you shall pay an extra cess,' he no less distinctly affirmed the liability of the land to future additional taxation, provided that such taxation were imposed in just proportion to additional burdens upon other property.

"This is the principle we are now affirming by the Bills which I shall lay before the Council. We hold with Sir William Muir (and exactly the same may be said in regard to the other provinces of Northern India) that the previously existing rates on the land in the North-western Provinces are compensated and made equitable by a corresponding rate levied upon other classes of property. And when, therefore, we now impose additional taxation upon the country, acting on this just principle, we propose to place upon the land an obligation equivalent, so far as may be, to that which other kinds of property will have to bear. The same rule will be applied to Bengal by the measures which my honourable friend, the Lieutenant-Governor, proposes to take. They will impose upon the non-agricultural classes, so far as this is practicable, rates which will correspond with the rates already levied from the land.

"The form of our proposed new taxation on the land in Northern India will be similar in principle to that lately adopted in Bengal. We shall simply make an addition to the local rates already levied.

"In the case of the taxation which we propose to levy on the commercial and industrial classes, the assumption, as I shall presently explain, is, that under no circumstances can the burden imposed fall at a heavier rate than 2 per cent. on a man's profits. In the Bills which I am about to lay before the Council we apply a corresponding rate to the agricultural classes; but, following the precedent of the old income tax, we do this in a manner which will really be, as a general rule, favourable to them. The settlements of the land revenue throughout Northern India are based on the assumption that the State is entitled to one half of the rental of the land; but the proportion which the Government actually takes has notoriously, in the majority of cases, become smaller than this. The existing local rates in Northern India do not vary very greatly in the different provinces. In the North-western Provinces, which may be taken as representing the general case, the total amount of the rates levied for local purposes was 5 per cent. on the gross annual rental of the land, and to this amount we now propose to make an addition of 1 per cent. Thus, under the assumption which I have just stated, that one-half of the rental goes to the State, the maximum rate at which the new tax will fall upon net annual profits will be 2 per cent. The burden on the two great sections of the community will then be approximately equalised, and we shall maintain the principle on which so much stress has justly been laid by the Secretary of State.

"In considering the equity of levying fresh taxation from the agricultural and commercial classes for the special purpose of meeting expenditure on account of famine, there are other points which ought not to be left out of sight. The late famine in Madras and Bombay has given us an admirable illustration of the fact that, with our present excellent system of communications, which goes on improving almost from day to day, serious and wide-spread famine in one portion of the empire brings wealth and prosperity to a very large section of the agricultural and commercial communities in other provinces.

"India is so vast, and the physical characteristics of its provinces are so diverse, that famine has never visited, and, we may reasonably hope, never will visit, the whole country at once. If famine prevails in Bengal and Behár, there are bountiful harvests in Burma, Madras, and the Punjab. If crops fail in Madras and the Deccan, the surplus food of Bengal and Central India and the North-west is at once poured into the afflicted country. Even in a famine-stricken province, the irrigated lands furnish surplus food which the owners sell at a great profit.

"It has, I trust, now been accepted as one of the most certain and fundamental maxims of our policy in dealing with famine, that, except under circumstances the occurrence of which on a large scale is to the last degree improbable, the Government must abstain absolutely from all interference with trade, and that this is the only way in which we can feel confident that everything which it is possible to do to bring food to the starving population will be done. The Government of India has acted consistently upon this principle throughout the late famine. The result has been that, as the demand arose for an additional supply of food from without, the agriculturists and the traders of the most distant parts of the empire, prompted by the hope of gain, hastened to pour their surplus stocks into the distressed provinces of the south. Never in the history of India has such a spectacle been presented as that which we have seen during the last few months; railway stations in districts 2,000 miles away encumbered with grain awaiting the means of transport, and our ports filled with ships destined to bear to the starving millions the plenty of happier regions. My friend the Lieutenant-Governor will, I think, bear me out when I say that never has the Ganges or the port of Calcutta been the scene of such an active trade as it was during August and September last, when the grain traffic to Madras was at its height.

"There could hardly be a better illustration of the immense activity in the trade in grain during the late famine, than that which is afforded by a comparison of the receipts on our Indian railways during what I may call the famine year and the year which preceded it.

"The receipts on the whole of our guaranteed and State railways from 1st October 1875 to 30th September 1876 amounted to 8,700,000*l.* In the corresponding period for 1876-77, they amounted to 12,000,000*l.*, and the increase has been spread over every one of the lines without exception. I do not propose to dilate on the immense advantages which these railways have conferred upon India during the late great calamity. This would be foreign to my present purpose; but, having mentioned these railways, I will ask you not to forget that at least four-fifths of the food imported into the famine country travelled over them, and I believe that the average journey made by each bag of grain was hardly less than 500 miles. When it is remembered that barely one-quarter of this food could have reached the famine districts at all without the railways, some idea may be formed of the millions of lives they have saved, and of the priceless boon they have conferred upon the country. A great engineer, for whose services to India no one can have a higher esteem than I have, asserted a short time ago that the railways were causing to India a loss of three millions a year. The facts that

I have just given are a sufficient comment on such a statement, but it leads me to repeat, what I before mentioned, that we now have good grounds for hoping that the net earnings of our railways during the year 1877 (including the receipts from the famine traffic) will suffice to pay the whole of the interest on the capital which has been expended on all the guaranteed railways, and that no burden on their account will be imposed on our Treasury.

"During the past year more than a million and a half tons of food have been carried into the famine districts from other parts of India. The profits on this great trade, after paying all expenses of carriage, have been estimated, on what appear to be fair grounds, at not less than 40 rupees a ton, and I believe that I am understating the fact if I estimate that the producing and trading classes have made a clear profit of six millions sterling on this business of supplying grain to the famine districts.

"Before leaving this part of my subject, I must add that, when the dark shadow of famine hung over the North-western Provinces and the Punjab in September last—a shadow which has been happily dispelled,—there were many signs that all classes had learnt an important lesson from the history of 1877, and that they trusted the Government to act up to its avowed principles and leave the trade in grain unfettered. Not only traders, but people of all classes, rushed into the grain market and bought up food for future need or for future sale. In this way prices went up very suddenly, it is true; but high prices are at such times the salvation of a country. Consumption not essential is sternly checked, and the reduction of stocks is lessened, until the rise of prices, with the accompanying prospect of profits to producers and traders, leads to importations from without. Such were the effects at the time to which I refer, and they supplied by a perfectly natural process the first precautions which were called for. I know how difficult and tedious a work it is to eradicate from the minds of men, and of governments which, after all, consist of men, false economical beliefs, and I will venture on no prophecies in regard to the future; but I can, for my part, conceive no stronger evidence than that which the late famine has given us of the ruinous impolicy at such times of interference by Government with the operations of private trade. Happily for India, all proposals to depart from this principle were rejected, and the event has shown that the supply of food has never failed.

"It is true that, in one instance, the Government somewhat departed from its resolution to leave trade absolutely free. It gave the traffic in grain consigned to the famine districts preference over all other traffic on the railways, and complaint has been made that injury was thus caused to the export trade of the port of Bombay. I do not think it necessary to defend this decision, and I think that all disinterested persons will say that, so long as there appeared imminent risk of multitudes of people starving if food were not sent to them, the Government was right in saying that consignments of grain should take precedence of consignments of other commodities; but I cannot doubt that the temporary falling-off, during the late famine, in the export trade of Bombay, was mainly, if not entirely, due to general rather than to any special causes. It was inevitable that an almost complete failure of crops throughout a great portion of the Deccan and Marhatta country, which usually sends its surplus produce to Bombay, should have its effect in reducing the exports from that port. The trade reports received from Bombay entirely corroborate this view, and indicate that the same causes had a very general operation; so that, speaking for myself, on the information at my command, which is possibly imperfect, I am forced to the conclusion that, if the Government had not interfered at all, the ultimate results would not have been materially different from those that actually happened. And I see in this a complete confirmation of the wisdom of the principle of non-interference we have adopted, and an encouragement for the future to leave it on all similar occasions to its fullest operation.

"Let me add that the export of wheat from India to Europe was, during the famine year, larger than ever. During the year ending 30th September 1876, 198,000 tons of wheat were exported, while in the year ending 30th September 1877 the quantity amounted to 394,000 tons. In Southern India the great mass of the people never eat wheat at all. This explains why, notwithstanding the demand for food in the famine country, the export of wheat from India to Europe could, during the year just passed, become without difficulty twice as large as it ever was before. The export of rice to Europe, on the other hand, has decreased, for rice is one of the staple foods of the population of Southern India.

"I will not apologise for this long digression. I have thought it necessary to refer prominently to the question of non-interference with private trade in time of famine, because it has an intimate connexion with my argument in favour of throwing upon the agricultural and commercial classes the chief responsibility for meeting the charges required for the protection of the country against famine, and because the wisdom of the policy of non-interference has, during the past year, been proved by facts which are absolutely irrefutable.

"I am told on the highest authority that never, perhaps, within the memory of man has there been seen in Bengal anything like the general prosperity which now prevails among almost all classes; and this prosperity has been immensely stimulated by the influx of money and the great demands on the produce and industry of the province which have arisen from the famine in Madras. Agriculture, trade, and the industrial arts have alike benefited. But it is not to be overlooked that there is one class which does not share in this general prosperity, or which shares very little in it, the class which depends on fixed incomes for its support, or whose incomes are little affected by competition. The small officials and others subsisting on wages, the amount of which they are powerless to regulate, suffer in particular from the high prices which prevail, and which serve to enrich the producing and trading classes. There are, I think, other reasons which make it equitable that the obligation of providing for the relief of famine should fall as lightly as possible on the class of which I have just been speaking, and indeed on the professional classes generally. In times of serious famine no large

proportion of these come upon the relief which the Government has to administer. The poorer field labourers in the villages and the poorer members of the trading and industrial classes in the towns are the first section of the population which suffers; and even when famine is at its height the mass of the people receiving relief are field labourers, petty ryots, and artisans. Very few priests and lawyers, and school-masters, and people with fixed incomes, actually demand Government relief, although they may feel sorely the pressure of famine prices. This class, with more or less fixed incomes, then, although we cannot relieve it, will have no fresh burdens imposed upon it by the measures which we now desire to take.

"The principle that it was on the agricultural and commercial and industrial classes that the main burden of providing for their own protection against famine must fall was recognised and partially enforced by the legislative measures adopted at the beginning of the present financial year. So far as the agricultural classes are concerned, it was carried into effect in Bengal by the imposition of a cess upon land, in order to enable the Government to meet the charges incurred on account of the canals and railways required for the protection of the province against famine; and, by making the demand in addition to the local rates, it was shown clearly that the Government desired to enforce and to bring home to the minds of the people the special objects with which the new demand was made. The agricultural classes of Bengal are now paying about 280,000% a year for their protection against famine. The same principle was affirmed, although I can hardly say that practical effect has been given to it, in the North-western Provinces, by the Act which was passed in March last (No. 7 of 1877) for enabling the local government to appropriate on account of provincial railways and canals a portion of the existing local rates upon land. That Act recognised the principle that the land throughout the whole province ought to be made to contribute towards the prevention of famine. The liability of the commercial classes to contribute for this purpose was at the same time declared in the North-western Provinces by the license tax upon trades, which was imposed by Act 8 of 1877. In Bengal no similar law was enacted, but my honourable friend the Lieutenant-Governor, when the land cess was under discussion in the Bengal Legislative Council, stated very plainly the probability that this measure would soon be followed up by a tax on the trading classes.

"We now propose to supplement the measures of March last. In Bengal we have got already our tax upon the land; we now desire to impose a corresponding tax on the commercial classes. In the North-western Provinces we have got already a tax on the commercial classes; we propose to develop it and supplement it by a tax on the land. In the Punjab, in Oudh, and in the other parts of India mentioned in the Bill which I am asking leave to introduce, there has been no fresh taxation; we now wish to impose similar new taxes in those provinces, both on the commercial classes and on the land. The amount and incidence of these taxes must more or less vary, according to the circumstances of different provinces; but, if our measures receive the approval of the Council, the same principle will have been carried out in all parts of the Bengal Presidency.

"I shall not have to occupy much time in describing the details of the measures which we propose, for they are extremely simple. The license tax introduced into the North-western Provinces by Act 8 of 1877 has, so far as our short experience enables us to judge, worked very satisfactorily. It has given rise to no complaints of any importance, and, under the excellent administration of the Government of the North-western Provinces and its officers, it promises, without the least pressure or harshness, to yield a good deal more revenue than was anticipated. We think, however, that the tax may be made more equitable, and at the same time more profitable, by a few changes, and those changes are moreover necessary to make the tax in the North-western Provinces harmonise with the measures which we shall have to take elsewhere. Under the existing Act a simple rate of license fee is fixed for each trade, without any reference to the extent of the transactions which may be carried on. Thus, everyone called a banker pays 16 rupees a year, whether he deals with millions or carries on the business of a petty money-lender. We now propose to revert to the form of the Licensing Bill originally introduced for the North-western Provinces, and to adopt a graduated scale of assessment. Thus, for instances, traders in the first class of the schedule will, as the Council will see, be divided into grades, the highest grade paying 200 rupees a year, and the lowest grade one rupee. The sums levied will, in all cases, be so moderate that, even when mistakes are made in the assessment, no great hardship can occur. The collector will usually have little difficulty, in practice, in making a classification of the traders in each class. There must, of course, be a good deal of inequality in all taxes of this kind, and they are always open to the objection that they press relatively less heavily on the richer than on the poorer classes. This is one of the penalties to which we have to submit, as the price of our desire to avoid all inquisitorial proceedings, and of the determination to have no income tax. I need not describe the details of the fees proposed for each class. The Council will find them in the schedule of the Bill. The highest amount which under any circumstances any individual or company can ever be called upon to pay annually will be 200 rupees. The lowest fee of all is one rupee. These will be the maximum and minimum rates in every province; but the details of classification will necessarily vary. The schedule of the Bill has been prepared in communication with the local governments, but it is possible that alterations may be suggested before the Council is asked to pass the Bill into law.

"There is a provision in the Bill similar to that contained in the existing Licensing Act, to the effect that any person dissatisfied with the amount of the fee charged against him may claim to be placed in a lower grade, or be exempted from payment altogether, if he is able to produce evidence to satisfy the collector that the amount demanded will fall at a rate exceeding 2 per cent. on his annual profits. This provision is a useful safeguard, although I do not suppose that it will be very often applied. Notwithstanding our determination to have no inquiries which would make the tax resemble an income tax, it is obviously necessary to have some test to which an appeal can be made if a dispute

arises regarding the grade in which a man ought to be included. This test, however we may disguise the fact, must depend, in the last resort, on the amount of his estimated profits, and, provided that we confine the application of the test to those cases only in which a person considering himself aggrieved chooses to demand its application, and we leave to him the choice of the evidence by which his claim is to be supported, we reduce to a minimum the difficulties which we cannot avoid altogether. It will be the duty of the local governments, subject to the approval of the Government of India, to lay down rules for the guidance of the collectors in regard to this matter. Subject to the same approval, it is proposed that the local governments shall define, according to the circumstances of each province, the conditions under which persons shall be exempted altogether from the tax, on account of their poverty and presumed inability to pay, without hardship, even the lower rate of license.

" The Bills which I am about to ask leave to introduce are designed to carry out the plans which I have described, throughout the North-western Provinces, Oudh, the Punjab, and the Central Provinces. For the Central Provinces, however, legislation is only necessary in regard to the land. The new burden to be imposed on the commercial classes can be levied under the existing law, by an addition which the Executive Government is empowered to make to the Pandhari tax. This being an impost which has existed from time immemorial, it will be much better to make a moderate addition to it, and not introduce similar taxation in another form unfamiliar to the people. There are some other parts of India, and especially British Burma, in regard to which I cannot now make any announcement, because we have not been able to consult the local authorities as fully as we desire.

" In regard to the measures proposed for introducing the license tax into Bengal, I will not speak in any detail, because those measures will be carried out by the local government. The Government of India has been in communication with the Lieutenant-Governor, and the two Governments are in complete accord. As, however, the public in this great province will naturally be anxious to know something more on the subject, I will, with your Excellency's permission, ask his Honour to give to the Council a sketch of the plans which it is his intention to propose. I will only say myself that the measures taken in Bengal will be the same in principle as those described in the Bills for Northern India which I am now asking leave to introduce, and the maximum and minimum fees will also be the same.

" Thus far I have spoken only of the provinces of the Bengal Presidency. Passing now to Madras and Bombay, I have to remark that it appears to the Government that, so far as the commercial classes are concerned, there are no reasons for applying to them a different rule to that which will be applied to the rest of India. We propose, therefore, that a license tax, similar in principle and in amount to that which I have described, shall also be levied in those presidencies. I am not now able to say anything of the details of the plans to be adopted, because our communications with the local governments on the subject are incomplete. It will probably be the wish of those governments that the necessary measures should be taken by the local legislatures, and not by this Council.

" We do not, however, propose to levy in Madras and Bombay any new direct taxation on the agricultural community, similar to that which has been proposed, and to a great extent already carried out, in the Bengal Presidency. I will state to the Council the reasons for this determination.

" But, before I do this, it will be convenient if I indicate the financial results of the measures which I have been explaining. I am not able at the present time to give an estimate which would show in detail, with any accuracy, the amount which our new taxes will yield. I have, however, endeavoured by a careful examination of all accessible facts, and especially of the statistics of the old license, and certificate, and income taxes imposed at various times, to form as correct a judgment on this point as possible. My conclusion is that the new taxes may be expected to yield for the whole of India something short of 800,000*l.* a year.

" I have already shown to the Council that at the beginning of the present year new taxes to the amount of about 325,000*l.* were imposed. Thus the total addition made to our revenue by new taxation since the commencement of the year will be about 1,100,000*l.*

" I have also shown that the new arrangements under which the responsibilities of the local governments have been extended will give, without imposing any new burdens on the country, financial relief to the extent of nearly 400,000*l.* a year. We shall thus provide the whole sum of 1,500,000*l.*, by which our position has to be improved, to enable us to make due provision for the prevention and relief of famine.

" After, however, all this has been done, there will not remain that margin of income over expenditure which, as I reminded the Council, is necessary, to enable us to meet those contingencies which cannot be foreseen, but which are certain to occur. Independently of famine charges on the one hand, and of the improvement in our revenues lately made, or now proposed, on the other hand, my conclusion was that our income, at the time which I have taken as our starting point, could not be regarded as supplying any surplus, and that there was reason to think that the balance was rather in the other direction. I said, following the views expressed by the Secretary of State, that the very smallest sum which we ought to provide in our estimates on this account as a surplus was 500,000*l.* a year. We have still, therefore, at least this sum to make good. I will now explain the manner in which we think that this should be done, and in so doing I shall complete what has to be said regarding Madras and Bombay.

" When I made my financial statement, I spoke at some length on the urgent necessity for carrying into effect, with the least possible delay, a great measure of fiscal and administrative reform; perhaps the greatest reform of the kind that remains to be accomplished in India. I mean the equalisation of the salt duties, and the abolition of the inland customs line, and with it of the transit duties on sugar, the produce of our own territories. I will not dilate on these barbarous imposts. '*Non ragioniam di lor, ma guarda e passa.*' In order to bring under taxation the salt imported from

Rajputana into Northern India, and to shut out salt taxed at a lower rate, this vast system of inland customs lines 'stretches its length, accursed of gods and men,' some 2,000 miles across the whole breadth of India. Committing, as I afterwards found, an unconscious plagiarism from Mr. Grant Duff, I described to the Council this huge barrier, which would reach from London to Constantinople, as comparable to nothing that can be named in the world except the great wall of China; a great impenetrable hedge of thorny trees, and evil plants, and stone walls, and ditches through which no man or beast can pass without being stopped and searched. 8,000 men guard this unspeakable barrier. I have poured forth in times past such constant indignation against this abominable system that it is difficult for me to find new terms of opprobrium. I now see, I think, the time at hand when we shall strive to banish from our recollection this anachronism and disgrace to British rule, and, if I may come back to my poet, say of all these things, '*Fama di loro il mondo esser non lassa.*'

"To get rid of these inland customs lines, two things are necessary. We have to enter into arrangements with the native states of Rajputana, which will enable us to levy our duties at the places of production, and we have to remove the great inequalities in the rates at which salt is taxed in different parts of India. Our negotiations with the native states of Rajputana are not completed, but they are in active progress, and there is no doubt that they will, before long, be brought to a satisfactory conclusion. There will then remain the equalisation of the duties, which now vary from Rs. 1. 13. a maund (82 lbs.) in Madras and Bombay, to 3 rupees a maund in Northern India, and Rs. 3. 4. a maund in Bengal. As I stated to the Council in March, the Government of India has, for many years past, never lost sight of this question, and important and effectual measures were adopted by Lord Mayo and by Lord Northbrook towards the removal of the great evils which I have been describing. But for the steps which they took, the completion of our task would not now have been brought so nearly within our reach.

"Although the necessity for equalising the salt duties has so long been recognised by the Government of India and by Her Majesty's Government, action has been till now in great degree prevented by the anxious desire that the object in view should be at least partially effected by a reduction of the salt duties in the Bengal Presidency, and not only by an increase of those in Madras and Bombay. The state of our finances has never in the past permitted, still less does it now permit, the sacrifice of revenue which a simple measure of reduction would have involved. I said in March last, that, if it had been possible, we should have been glad to see the rates of duties on this side of India reduced immediately to those in force in Madras and Bombay, but that I feared it would be found financially impossible to bring about the equalisation in this manner, and that we must in the first instance, and at least temporarily, increase the lower duties, without reducing the higher to the full extent ultimately desired. Unfortunately, our financial difficulties continue, and, although I still look forward hopefully to the time when we shall be able to relieve the people of the Bengal Presidency from the high salt duties which they have now to pay, it is clear that under present circumstances we can do this only to a limited extent. The object at which we aim is, as I have said before, to give to the people throughout India the means of obtaining, with the least possible inconvenience, and at the cheapest rate consistent with financial necessities, a supply of salt, the quantity of which shall be limited only by the capacity of the people for consumption.

"It is calculated that a general rate of about two rupees eight annas a maund throughout the whole of India would be necessary to produce an amount equal to the salt revenue which we now obtain, and, whatever may be our anticipations for the future, we cannot now propose any measures which would reduce the total amount which the salt duties yield. For the present, therefore, what we aim at is such a general rate of two rupees eight annas a maund, or one anna a seer. This is something less than three farthings a pound, and is not more than one half of the duty levied on salt in France in 1876. The prospect of arriving at a lower rate than this is now too remote to be taken into practical consideration. The step we now propose, then, is an increase of the salt duties in Madras and Bombay to the extent I have named.

"A year ago the Government hoped to have soon carried out these measures for abolishing the inland customs line and equalising the salt duties; but the famine made this impossible.

"It is true that the increase of annual taxation involved by raising the salt duty in Southern India to two rupees eight annas a maund would only be about twopence a head, and for the poorer classes the annual additional charge would be even less. It is true, also, that payment of the tax is distributed over the year by almost daily instalments, each of them infinitesimally small. It is also true that in the years 1859, 1860, and 1861 the salt duty was raised in Bengal by 12 annas a maund, and in the Upper Provinces by one rupee a maund, not only without occasioning discontent or reducing consumption, but that these measures hardly even attracted attention. The Government felt, however, that the objections to increasing the price of salt at a time of serious famine were insuperable.

"We were, therefore, then obliged to postpone this great reform. But the question has now been again forced on the consideration of the Government, by the necessity of providing means for meeting the great expenditure incurred in the past, and to be incurred in the future, for the prevention and relief of famine. The Presidencies of Madras and Bombay must, of course, bear their share of the common burden. There are no reasons of principle why taxes similar to those which we are proposing to levy in the Bengal Presidency should not also be imposed in Madras and Bombay; and, if we were now to levy those taxes, both on the commercial and on the agricultural classes, in those presidencies, and, having done this, we were to equalise the salt duties, it could hardly be said that we were doing anything unjust. It might be urged that there is no reason why the people of Southern and Western India, who in ordinary times are at least as prosperous as those of Bengal, should pay a lower duty on their salt; and it might be said that the existing inequality is aggravated by the fact that, owing to the greater proximity of its sources of supply, salt in Madras and

Bombay would, if the duty were everywhere the same, be, as a rule, considerably cheaper than in Bengal. We might be told that the necessity of increasing the salt duties in Madras and Bombay had been admitted and virtually resolved upon by the Government of India and by Her Majesty's Government long before any of these famine questions arose, and that we ought not now to take into consideration the equalisation of these duties in determining what amount of new taxes Madras and Bombay ought to pay on account of famine expenditure. The Government of India has decided otherwise. While it admits the necessity of making the burden of taxation as equal as possible in the different provinces of the empire, it does not think that it would now be right to impose fresh direct taxation on the agricultural classes in Madras and Bombay, and then make an increased demand upon them for the purpose of equalising the salt duties throughout India. It is on these classes that an increase in the tax on salt will mainly fall, and, considering that these also are the classes which have had to bear the severest pressure of famine, the Government does not think that it would be expedient to levy upon them, at any rate at the present time, additional taxes similar to those which we are proposing to levy in the Bengal Presidency. Nor can we neglect the consideration of the fact that, in some parts of the Bombay Presidency, the land revenue is already so high that it would be a measure of very doubtful expediency to impose new direct taxation affecting the classes interested in the land. The Government has therefore decided that the increase of revenue which it will derive from raising the salt duties in Madras and Bombay shall be held to obviate the necessity of imposing new direct taxation on the land.

"We had feared that, while raising the salt duties in those presidencies to two rupees eight annas per maund, and foregoing the fresh taxation which will be imposed in the Bengal Presidency, the state of our finances would not permit of any reduction being made in the salt duties of Bengal and Upper India. We find that we cannot safely estimate for a greater sum than 500,000*l.* from the enhancement in Madras and Bombay. We are, however, most anxious to give an earnest of the sincerity of our determination to carry out the great policy which the Government of India and Her Majesty's Government have affirmed. That policy, as I have already said, aims at giving to the people throughout India an unlimited supply of salt at the cheapest possible cost. We desire to show that our main object in increasing the Madras and Bombay salt tax is not the immediate profit to be derived from the measure. We have therefore determined to devote 200,000*l.* out of the 500,000*l.* to the reduction of the salt duties in Bengal and the Upper Provinces. We propose to reduce the Bengal rate by two annas, and that of the Upper Provinces by four annas a maund, and thus, while enhancing the cost of salt to some 47 millions of our subjects, to do something towards cheapening it to some 130 millions.

"With the small difference of four annas per maund duty in Bombay and the Central Provinces, we are enabled, without risk, to abolish the mileage rates now levied on all salt imported by the Great Indian Peninsula Railway to the Central Provinces and Berar. These mileage duties, while necessitating the entertainment of customs establishments on the railway to supervise the weighment and loading of every pound of salt put into the waggons, have the economic fault of enhancing the duties on the salt in direct proportion to the distance they are carried from the place of production, so that, where salt is naturally dearest, it has to pay the highest duty. The effect of the abolition of this duty must be to stimulate the salt trade from Bombay by removing all restrictions and interference from it, while a sensible relief will be given to those of our subjects to whom salt is now dearer than anywhere in India.

"Notwithstanding its anxious desire to carry into effect this great measure of reform with the least possible delay, the Government of India felt that it still remained a serious question whether it was right, at the present time, when the distress which has fallen upon the people of Southern and Western India has hardly passed away, to adopt a measure which would increase, even in the smallest degree, the price of one of the first necessities of life.

"We felt that we exposed ourselves to the risk of misconception and misrepresentation; and that, although it was true that the additional burden thrown on the peasant of Madras could not exceed more than a few pence a year for himself and his family, it would be thought that the time was not opportune for making any increase at all to the price of salt. The Government, however, considered that it would not be satisfactory, if it were compelled to confine the announcement of the measures which it proposed to take, to those only which were to be applied in the Bengal Presidency. It was obviously impossible to give any public notice beforehand of the intention of the Government to alter the rates of the duty upon salt. Serious loss of revenue and serious disturbance of trade would have been the inevitable result. When we alter duties like these, it is essential that the necessary measures should be passed through the Council at a single sitting. We might, of course, have postponed giving any information regarding the new taxation in Madras and Bombay; but my statement would then have been incomplete, and doubt and excitement would have continued to exist regarding the measures to be taken in those presidencies. We thought it right to leave to the decision of the Government of Madras the question whether the necessary steps should be taken contemporaneously with those in other provinces; and whether, the eventual increase of the salt duties in that presidency being inevitable, it could give its approval and support to their immediate adoption, or whether that Government saw valid reasons for delaying action for a few months. The decision of the Government of Madras was communicated to the Government of India in these terms, that, the eventual increase being decided on, they were of opinion that the change should be simultaneous, universal, and prompt, and that there was no sufficient reason for, nor any benefit from, a few months' delay. The Government of Bombay has given its cordial approval of the measures which the Government of India has proposed to apply to that presidency, and has concurred in the opinion that the increase in the salt duties should take place at once. The Government of India feels no doubt that the local governments are right; and, fortified by the decided opinions which they have expressed, it has

resolved to ask the Council to pass at once into law the Bill for increasing the salt duties in Madras and Bombay, which the Honourable Mr. Hope is about on my behalf to ask leave to introduce.

"The objections felt to dealing with these duties at the beginning of the financial year would, no doubt, have been almost entirely sentimental, though they would not on that account have been less real or serious; and this is a truth of which we now have direct evidence of fact, in an ascertained large increase of consumption, both in Madras and Bombay, during the past eight months of very exceptional difficulty through which the population has had to pass. In no equal period of any previous year has the consumption of salt been so large in those presidencies.

"In regard to the reduction of the duties proposed in the Bengal Presidency, the Government possesses, under the existing law, full power to do, by executive order, all that is required. If, therefore, the Council should approve the measures suggested for Madras and Bombay, no further legislative action will be necessary.

"From these explanations it will be seen that a sum of 300,000*l.* will be provided from the increased salt duties, in aid of the addition to the revenue I had shown to be still requisite to make it up to the amount that should furnish the surplus of 500,000*l.* deemed necessary.

"But it will at the same time be perceived that, as the avowed policy of the Government is to equalise the salt duties by the reduction of these duties in the Bengal Presidency, this last-named addition of 300,000*l.* will not constitute a permanent item of revenue. On the contrary, it is our intention, as soon as the improved position of the country will admit, to carry out the long-deferred equalisation of these duties, which will involve the sacrifice of the temporary increase of income which our present needs will not permit us to forego.

"It might thus appear that there still remains an uncovered deficiency for which no permanent provision has been made. The Council, however, will bear in mind that it has been established, I think beyond reasonable doubt, not only to my own satisfaction, but also to that of my predecessors in office, that we may rely on a steady increase to the general revenues; and we have felt that it would not be right, when proposing fresh taxation, to neglect this aspect of the case. We have consequently determined to accept this normal growth of our income as a sufficient security for making good the 200,000*l.* which would still be required to complete the desired surplus of 500,000*l.*, and as affording a probable means of accomplishing the complete equalisation of the salt duties and other desirable fiscal reforms at no distant future. We are strengthened in this hope by the circumstance that our estimates of the produce of our new taxes have been prudently framed; but, after all, we have only estimates on which to work, and we must not disguise the fact that, should our anticipations of our position at the end of the present financial year be disappointed, we may again have to come to the Council to ask for further aid in completing the task we have in hand, a task than which no weightier one ever rested on the Government of India.

"I have now, my Lord, finished my special task, and I will add only a few words of a more general character. The objects of the Government, it will have been gathered, are twofold; first, to obtain that addition to the public income which experience shows to be required to meet the charges that arise, directly or indirectly, in a series of years, by reason of scarcity and famine; and second, to secure a proper margin of ordinary surplus to meet those unforeseen irregularities in the revenue and expenditure, which necessarily lead to differences between the estimates of the year and the actual accounts.

"As to the first of these objects, I desire to say that the recognition by the Government of this new obligation implies no suggestion of diminished public wealth or a decaying revenue. Rather the very contrary is true, and it is the stronger perception of the generally advancing condition of the community, and of its requirements and capacities, that has induced this movement. It is the firm intention of the present Government to apply the funds now to be provided for this special purpose strictly to the exclusive objects which they were designed to secure. In such matters, no doubt, governments cannot fetter their successors, and nothing that we could now say or do would prevent the application of this fund to other purposes. Without thinking of a future far removed from us, events might, of course, happen which would render it impracticable even for us, who have designed these measures, to maintain our present resolutions.

"So far, however, as we can now speak for the future, the Government of India intends to keep this million and a half as an insurance against famine alone. In saying this, I should explain that we do not contemplate the constitution of any separate statutory fund, as such a course would be attended with many useless and inconvenient complications, without giving any real security. Unless, then, it should be proved hereafter by experience that the annual appropriation of a smaller sum from our revenues will give to the country the protection which it requires, we consider that the estimates of every year ought to make provision for religiously applying the sum I have mentioned to this sole purpose; and I hope that no desire to carry out any administrative improvement, however urgent, or any fiscal reform, however wise, will tempt the Government to neglect this sacred trust.

"The second of our objects, the maintenance of a substantial surplus, not liable to be found imaginary when our year's transactions are completed, we regard as the means for securing that continued amelioration of our fiscal and administrative systems, without which no true progress or real economy is possible.

"I will only further detain the Council to say that, if one fact has been more certainly established by experience than another, it is this, that, in carrying out really effectual and satisfactory measures of relief in time of famine, sound principles and good administration are far more important and far more efficient agents than the lavish expenditure of money. It would be easy to show that during the late famine the districts in which we find false principles, bad supervision, leading to every sort of dishonesty and speculation, and reckless waste of the public funds, are the very places where the extremity of suffering has been reached and lamentable loss of life has occurred. On the other hand, in districts where the failure of the crops was quite as complete, and the difficulty of saving

the people from starvation was as great, it has been shown that sound principles and good administration can make wise economy compatible with the most efficient system of relief. It is a truth which cannot be too distinctly recognised by the Government and by the public, that it is not only by the expenditure of money, or by merely material means, by railways, roads, and works of irrigation, that we can protect the people against famine, but that much progress in their social condition and increase of wealth, as well as improvements in the everyday administration of the country, are also conditions which must be fulfilled before complete and permanent protection against famine can be obtained. To fulfil these conditions, a thoroughly sound financial position is an essential preliminary, and it is this that we seek to establish."

His Honour the Lieutenant-Governor said:—"My Lord, I have been invited by my honourable friend, Sir John Strachey, to explain the measures which it is proposed to adopt in Bengal, with a view of carrying out the policy of the Government of India which he has just declared, and I will endeavour to do so as briefly as the circumstances will permit.

"I think it must have been generally anticipated, even before my friend made his able and comprehensive exposition of the present financial position of Government, that it was quite impossible that the administration of the country could be carried on without some increase of taxation.

"If only the country could be secured for a few years from famine, war, or other calamity, the finances of India would evidently be in a most flourishing condition. But such extraordinary calls as have been made upon it in the last few years to meet the expenditure of recurring famines have plunged the country into difficulties from which it can only be relieved by such measures as shall provide a very considerable increase of revenue to the Imperial Government.

"I may, I think, say for the people of Bengal that they have for some time past been prepared for a demand to bear, in common with the other provinces of the empire, their share of the cost of meeting these extraordinary charges; and I feel that they will cheerfully accept the requisition which I shall be compelled to make upon them. I am sure that the action of the Government of India, in determining to save the lives of the people at any cost which it was possible for the country to bear, has the entire concurrence of the people of Bengal. In the early stages of the famine at Madras many influential and leading men of the country expressed a wish that everything which could be done with this object should be done, and that the cost should be subsequently raised from them by taxation fairly distributed.

"I have under these circumstances felt no hesitation in expressing my readiness to accept the burden which it is proposed to throw on Bengal as its contribution towards the expenses of famine relief, and I feel that I shall have the support of the local Council and the public in the measures which I shall be compelled to lay before that Council in a few days to meet the call which has been made upon me.

"I should not, however, be dealing frankly with your Lordship, if I did not say that the expressions which I have heard of the readiness of the people of Bengal to bear their share of the cost of famine have been qualified by a strong wish that, before imposing fresh taxation, the Government of India should thoroughly analyse the increasing charges of the army, with a view of applying to that branch of the public service the same rigid economy that has been applied to other branches of the service. I am not in a position to say how far this wish is reasonable, or how far compliance with it is possible; but I feel it my duty to say that I know it is a subject which is very much occupying the mind of educated native gentlemen in connexion with the question of fresh taxation, and that considerable agitation of the subject is going on. And it is therefore with sincere pleasure that I have heard that the question is receiving full consideration from the Government.

"I have much pleasure in saying that the general effect of the decentralisation system, in respect to the facilities which it has given to provincial administration, has been thoroughly satisfactory. In making the local governments responsible for expenditure, and giving them a direct interest in the development of various branches of the revenue, it has secured a careful scrutiny over the expenditure of all departments, and a deep interest in all improvable heads of revenue, which has extended to all grades of the service. District officers understand that the provincial government cannot devote money to new works and schemes without an improving revenue, and they have cordially and loyally co-operated with the Government in suggesting such measures as appear likely to beneficially affect the revenue.

"The local government has been able, since the first introduction of the system in 1870-71, to carry out many measures of improvement on its own responsibility, which would, before the introduction of this system, have had to wait upon the requirements of other provinces. All friction with the Imperial Government has been obviated, and much useless correspondence avoided.

"I think that, in adjusting taxation to the special circumstances of each province, and equalising as far as possible the relative incidence of taxation upon the various classes of the community, leaving the details to be settled by the local government, the Government has acted most wisely. The circumstances and condition of the various provinces are very different, and the incidence of present taxation is also very different in one part of the country to what it is in another. It is, as has just been explained, proposed to levy in the North-western Provinces a cess upon the land, while last year the deficiency of revenue was there made up by a license tax on trades. But in Bengal we have already in the last few years imposed upon the land a charge of 600,000*l.*, of which 300,000*l.* has been assigned to the Imperial Government as a permanent contribution, while our trading community has been left perfectly free of taxation. Though, therefore, I admit it is just and reasonable that the landed interest should, as in the North-western Provinces, be called upon to share with the trading classes the incidence of taxation, I feel that it is quite impossible at the present time to ask the landed interests and the agricultural population of Bengal to pay anything further; and feel, in common

with nearly all the officials throughout the country who have been consulted on the subject, that the time has come when the trading and artisan classes should be called upon to bear their share of taxation from which they have hitherto been free.

"It may perhaps be considered right that I should take this opportunity of stating formally to the Council the measure which I propose to submit, under the sanction which I have received from your Excellency's Government, for the consideration of the Bengal Legislative Council, in order that I may be in a position to comply with the requirements of the Imperial Government.

"Last year, when introducing the public works cess on land, I observed that there appeared to be a very general opinion that something should be done to throw a portion of the incidence of taxation upon the non-agricultural classes. Time did not then admit of the elaboration of any measure for the purpose, but I promised that I would consult with the Commissioners of Divisions in Bengal, and would watch the working of the new license tax in the North-western Provinces, with a view of considering whether we could not shift some portion of the burthen of fresh taxation upon classes not interested in the land.

"The result of the reference to Commissioners and local officers was to show that there is a large preponderance of opinion in favour of the feasibility of introducing and working a license tax of the kind proposed. The events of the past year have, however, made it clear that, so far from our being able to relieve the classes interested in land by transferring a portion of their burden to the classes engaged in trade and commerce, we shall require not only all that we now draw from the provincial public works cess, but a very considerable additional income, to enable us to meet the liabilities which the Supreme Government is compelled to impose upon us. The amount that we are now required to find to enable the Imperial Government to meet famine expenditure is 30 lakhs of rupees net; and we must therefore raise a sum of money sufficient to cover all costs of collection and to save us all risk of inability to meet the unpaid demand.

"With the approval of the Government of India, it has been determined to raise a sum estimated on this basis by a tax upon trades, dealings, and industries throughout the Lower Provinces. Looking to the sums paid by the landed classes and the cultivators under the Road Cess and Public Works Cess Acts, it is clear that this is not too large a demand to make upon the commercial and industrial wealth of this great province. During the last few years Bengal has advanced rapidly in wealth. Its trade has received large developments, having profited generally by the misfortunes of other provinces, and by the gradual improvement of the agricultural classes at home. Its people are, on the whole, the most lightly taxed in all India.

"It having, then, been determined to levy a tax of this amount upon trade and commerce and industries other than agriculture, the question remained what shape the tax should take—should the money required be raised by imposing substantial rates upon the wealthier members of the trading and industrial classes, or by imposing a light general tax upon every class of trade and industry, or by a combination of those measures? To enable us to decide this point, the records of former taxes upon trade and industries were carefully scrutinised.

"We have most carefully examined the statistics of the various license taxes, certificate taxes, and income taxes, passed or proposed and discussed since 1861, and have endeavoured to apply the facts thus gleaned in such a manner as to be able to form a very rough approximate estimate of the yield of the modified license tax which we now propose. On the whole, the conclusion which we came to on a review of the foregoing and other available facts was that, if we levied a license tax upon trade and industrial incomes of 200 rupees and upwards at the rates adopted in the Certificate Tax Act of 1868, we could not hope to realise much more than 15 lakhs of rupees in all Bengal. There was, moreover, this objection to any tax based on the model of the Certificate Act, that it was, after all, a tax regulated directly by reference to income, and that in the higher classes the rates were too high for a mere license tax.

"The fact that India is, after all, a country where the number of wealthy men is very limited, must always be borne in mind when considering questions of taxation. Any tax, therefore, which is to be largely productive, must be assessed on a very large number of people, and it is quite impossible to hope that we can raise all we want by a tax, however heavy, to be levied on only the wealthiest traders. We want to make all classes pay their fair share of taxation. We have, in respect to the land cess, levied it from every class of raiyat, and the tax on trades and industries should follow the same lines as far as possible. The classes who suffer most when famine occurs should certainly contribute something in seasons of prosperity to funds raised for purposes of enabling the Government to meet famines.

"It was resolved, therefore, that the tax should take the shape of a license tax, of which the maximum rate should be 200 rupees, and that maximum to be only leviable upon joint-stock companies and a few of the very largest traders and bankers. Substantial traders of a lower class will be taxed at the rate of 100 rupees, 32 rupees, and 10 rupees, while small traders and artisans will pay 4 rupees, 2 rupees, or 1 rupee, according to their means.

"In the town of Calcutta a license tax is already imposed on 'professions, trades, and callings,' in manner set out in the Third Schedule of Act IV. (B.C.) of 1876. Under that schedule 2,51,000 rupees are annually collected for municipal purposes. It appeared that, with certain exceptions, the rates therein set forth would be suitable rates to impose for the purposes of a provincial license tax in the town of Calcutta, so far as the classes specified in that schedule were concerned. It is obviously very desirable to extend existing forms of taxation where they exist and are capable of adaptation, rather than impose new taxes; and, though it may involve some loss of money, we have determined to apply to Calcutta its present form of municipal license tax, rather than introduce a new tax, with a new assessment and a fresh collecting and assessing machinery. In Calcutta it is not proposed to exempt any of the classes mentioned in the schedule of the Municipal Act. Calcutta has specially

benefited by the growth of trade, and its professional men have specially shared in the general prosperity of the place. The tax is so small that I am sure they will gladly accept it as a most beneficial substitute for the income tax with which my honourable friend has just threatened us.

"The only addition to the existing license tax is that joint-stock companies and wholesale dealers shall pay a license fee of 200 rupees, and that wholesale brokers shall pay a license fee of 100 rupees per annum; and further, some of the classes of artisans and mechanics who will be subject to taxation in the interior will also be subject to the license tax in Calcutta.

"It has been decided that, after an estimate has been made of the probable proceeds of a license tax, such as that above described, within the municipal limits of Calcutta, the municipality should be required to contract for the payment to Government of a fixed annual sum, such as would leave the town a fair margin for cost of collection and to cover all risks.

"For the interior of Bengal I propose to ask the local Council to pass a License Tax Act, under which the highest rate levied upon a joint-stock company or any wholesale dealer will be 200 rupees. The license fee upon other classes will be graduated in a few clear and distinct grades down to one rupee. The rates, while we hope they will be very productive, will, it is believed, fall very lightly indeed upon any class; and the various grades will be capable of easy classification without any direct reference to income or any sort of inquisitorial proceeding on the part of assessors.

"It has further been decided that the house cess under Act X. (B.C.) of 1871, and Act II. (B.C.) of 1877, should be remitted in the case of those paying license tax. The house cess was made a part of the Road Cess Act, in order to compel traders and professional persons in the interior, living outside municipal limits, to contribute, along with the cultivating classes, for the purposes of that Act. It brings in very little at present (only about 1½ lakhs for all Bengal), and is very unpopular with the officials and the public. Under the Provincial Public Works Act the house cess is again levied on the same classes at maximum rates. The license tax will fall on precisely the same class of persons as pay house cess under the two Acts last mentioned, and it would be felt as a very great hardship if they had to pay tax three times over—first for local purposes, then for provincial purposes, and lastly, for imperial purposes. It is best to remit the house cess altogether, and to levy one tax only on trades and industries. The loss to district road committees will be comparatively trivial, and will, if necessary, be recouped to them, and the provincial finances will probably not suffer at all in the end.

"The local government is well aware that, in proposing to levy a direct tax of this kind upon such a large body of people, it is undertaking a task of great magnitude. But the circumstances of the country render the levy of this amount of taxation imperative, and I believe the necessary amount could not be raised in any less objectionable manner.

"I have heard with great satisfaction the announcement that it is the intention of the Government of India to take measures to equalise to some extent the duties on salt throughout India, and, though I should not have advocated in itself a decrease in the salt duty levied in Bengal, which is a very popular form of taxation, I am glad that the measure of equalisation should have resulted in a diminution of the rate of duty in Bengal, at a time when we are imposing such a heavy burthen on the people in other respects, though I cannot help feeling that it is a sacrifice of revenue in concession to theory which would afford no real relief to the people."

His Excellency the President.—"I am reluctant to prolong the proceedings of the Council at this comparatively late hour; but the general importance of those explanations with which I desire to accompany the questions now before me will, I trust, be my sufficient justification for making a further appeal to the attention of honourable members.

"After the statements made to-day by my honourable colleague, Sir John Strachey, and my honourable friend the Lieutenant-Governor of Bengal, I need not now refer in any detail to the principal measures which the Government of India, reviewing all the present circumstances and prospects of the empire, has deemed necessary for giving to our financial position the additional strength it undoubtedly requires. But I desire to explain how we propose to employ the money now asked for, and also to add emphasis to the statements of my honourable colleague as to the fundamental idea which underlies the present financial policy of the Government. Guided by this idea, we are resolved to seek the support we require through an extension of the responsibilities and resources of the local governments, rather than from any mere addition to the machinery or revenues of the central authority. We are convinced that the coherent development of this multiform empire can only be secured by gradually enlarging those local foundations which sustain the wide-spread fabric of the State, and stimulating throughout all parts of its complex administrative structure the free play of a healthy spirit of self-reliance and mutual support.

"For this reason the Government of India is determined not to deviate from the course on which it entered at the commencement of the present financial year. That course has been cordially encouraged by Her Majesty's Government; and we have the best reason to believe that it has approved itself to all the local governments whose intelligent co-operation ensures the successful prosecution of it. The statement made by Sir John Strachey will, I trust, have satisfied the Council that the additional revenue now required by the Government, and the increased burdens which must consequently be borne by the people of India, are the inevitable consequences of famine, and of famine only. I will not abuse your sympathies by harrowing your feelings with any description of the ghastly scenes I have witnessed this year in Southern India; scenes which, horrible as they were, only partially revealed the mass of unseen, unuttered misery that lay behind them. I feel sure you will believe that no such sights were needed to impress me, and I am equally confident that no such descriptions are needed to impress this Council, with a profound sense of the paramount obligation now resting on us all to spare no effort for preventing the recurrence, or mitigating the effects, of such calamities. But of one thing I am convinced. Our efforts must fail if they be merely the uneducated offspring of casual impulse and indefinite sentiment. The primary condition of successful effort is

the strictly systematic subordination of it, in all directions and in all details, to the verified results of experience; and the carefully ascertained conditions of what is practically possible. It is not by the indulgence of that morbid sensibility to the dramatic elements of horror which so unconsciously simulates compassion, it is not even by exclamatory utterances of a generous impatience, or a genuine grief, under the painful contemplation of the sufferings of our fellow-creatures, that we can practically prevent or alleviate such national calamities as those through which Southern India has been passing during the last two years. We might as reasonably hope to solve the hideous problem of London pauperism by bestowing pence on street beggars, or pathetically depicting their raggedness in our illustrated journals for the encouragement of promiscuous almsgiving. I am profoundly persuaded that every rupee superfluously spent on famine relief only aggravates the evil effects of famine, and that in all such cases waste of money involves waste of life.

"The measures now before the Council have, for their principal object, the provision of that increase of the public income which experience has proved to be the first condition of any practical insurance against famine; and, therefore, it is only proper that the Council should know how we intend to employ the resources which its adoption of these measures will place at our disposal for that purpose.

"The tasks bequeathed to the Government of India by the calamitous circumstances of the last two years have now, I am thankful to say, more direct reference to the future than to the immediate present. They are not, on that account, less imperative or less seriously recognised, but their comparatively prospective character is a fact which I cannot record without a deep sense of gratitude; gratitude to Providence for the reviving fertility of districts recently stricken barren by a prolonged and quite unprecedented disturbance of the atmospheric conditions to which they are subject, gratitude to those valuable public servants in and from all parts of this empire, to whose devoted and indefatigable exertions the people of Southern India is indebted for the restriction and abbreviation of a terrible calamity; and gratitude, no less sincere, to the generous charity of the British nation, which has, I truly believe, materially contributed, not indeed to the preservation of life (for to that object it was not applied, and for that object it could not have been legitimately invoked), but to the mitigation of much of the suffering and distress which such a calamity must inevitably bequeath to its impoverished survivors.

"Now, turning to the contemplation of the future, our first duty must be, I fear, to recognise and face, with all its consequences, the sad but certain fact that, in the present social condition of India, famines cannot for many years (I might almost say for many generations) to come be entirely prevented. The population of this country is still almost wholly dependent upon agriculture. It is a population which, in some parts of India, under those securities for life which are the general consequence of British rule, has a tendency to increase more rapidly than the food it raises from the soil. It is a population whose consumption in many places trenches too closely on the crops already provided by its industry, and which therefore runs great risk of having no accumulated produce to depend upon, whenever the earth has failed 'to bring forth her fruits in due season.' A people permanently living under such conditions, a people, that is to say, whose entire labour provides only just food enough for its own annual sustenance, is, it must be confessed, a people removed only a few degrees from a state of barbarism. Until the accumulated fruits of industry exceed the current requirements of the population for its own subsistence, there can be no growth in the wealth of the community, and until the national wealth, that is to say, the exchangeable surplus produce of the country, has been increased up to a certain standard, there can be no adequate security against famine. To the attainment of this object, therefore, all our efforts in every department of the administration must be constantly directed; but at the same time it must also be always borne in mind that, until this object has been attained, no exertions and no expenditure on the part of the State can practically do more than provide for the restriction and mitigation of periodical scarcity. It is not yet in the power of human science to foresee, still less to control, the uncertainty of the seasons, and this uncertainty, which is so constant and violent in India, must always afflict with exceptional severity any population that is habitually living from hand to mouth; for in that case, when the hand fails to raise a crop, there is nothing left for it to carry to the mouth. Fortunately, however, the material appliances which already exist, and only need to be prudently developed in order to provide us with an effectual insurance against the worst consequences of famine, are also those which, if rightly employed, will most rapidly promote that general increase of the national wealth on which alone we can reckon for the permanent prevention of famine.

"Now, of the countless suggestions made from time to time, and more especially during the present year, for rendering less bitterly ironical than it still seems, when read by the sinister light of recent events, that famous inscription on the huge granary built at Patna for 'the perpetual prevention of famine in these provinces,' there are only three which merit serious consideration. These are, firstly, emigration; secondly, railways; and, thirdly, irrigation works. Unfortunately for India, however, the first of these three material factors in the practical solution of problems similar to those we are now dealing with, is inapplicable, or only very imperfectly applicable, to the actual conditions of this country. The first condition requisite to render emigration available as a precaution against famine is a normal excess of the population as compared with the food produce of the country; the second condition is sufficient energy on the part of the surplus population to induce it to seek a higher standard of material comfort than that to which it is accustomed; and the third condition is a foreign field of labour in which this higher standard may be reached. Now, none of these conditions are sufficiently developed in India to justify reliance upon emigration as an efficient auxiliary in our struggles with famine. Of our whole population, only a small portion as yet exceeds its food-producing power. The possible increase of this proportion of the population will undoubtedly augment our future difficulties, if in the meanwhile no adequate correctives be applied to them. But, in those parts of India which during the last two years have most suffered from scarcity, the population only

averages at 250 inhabitants to every square mile; and, since those districts comprise large areas of uncultivated land, this average cannot be regarded as at all excessive. In the next place, there is no contesting the fact that, in spite of the inducements offered to emigration by this Government, in spite of the wide-spread organisation for the recruitment of it established by colonial governments, and in spite of the encouraging example furnished by that small number who, having tried the experiment of temporary emigration, return, after a few years' absence, in possession of savings which they could not otherwise have stored by the labour of a lifetime,—in spite of all these things, the people of India will not emigrate. The uncomplaining patience of the Indian raiyat has a profoundly pathetic claim upon our compassionate admiration. In no country of the western world could a national calamity so severe and prolonged as that which has now for more than 24 months afflicted one half of this empire have lasted so long, without provoking from the sufferings of an ignorant and starving population agrarian and social disturbances of the most formidable character. But for this very reason we cannot safely frame any plans for improving the condition of the Indian raiyat in exclusive reliance on his spirit of adventure; and, although the exportation to foreign countries of large numbers of the people, without reference to their feelings and in opposition to their known inclination, is a policy which might possibly have been enforced by a Mogul emperor, it is certainly not a policy which can be adopted by a British Government. It is a very significant fact that those of our native subjects who do occasionally emigrate belong to the least, rather than the most, densely populated parts of the country. Finally, it must be borne in mind that, if to-morrow all the native races of Hindustan were animated by a simultaneous impulse to emigrate, there is at present no field of foreign labour capable of absorbing a proportion of the enormous population of this continent sufficiently large to make any appreciable difference in the general condition of the remainder. Our colonies take from India annually a few thousand labourers. Multiply that number by 10, or even 20, and the per-centage of Indian emigration would still bear but an insignificant relation to the number of the whole non-emigrant community. For all these reasons, although emigration unquestionably claims our fostering encouragement, I fear that for many years to come we must practically exclude this expedient from the list of those on which we mainly rely as a means of insuring the population of India against the calamities of periodical famine. The conclusion thus arrived at forcibly confines our immediate efforts to the most rapid development, by the cheapest methods, combined with the most appropriate and efficient application, of the only two remaining instruments for increasing the produce of the soil, facilitating its circulation, and thereby improving the general social condition, and augmenting the collective wealth of the whole community. Those instruments are railroads and irrigation works.

"Now, the incalculable value to India of her present railways has been unmistakably demonstrated during the past year, and the Government is unquestionably bound to stimulate the extension of this class of works to the greatest extent and with the greatest rapidity consistent with the requirements of financial prudence. The capital expenditure on the guaranteed railways during a period of 28 years has amounted to not far from 95 millions sterling, with a result to be measured by about 6,000 miles of broad gauge line. During the last nine years the outlay on State railways has amounted to about 18½ millions, producing 1,050 miles of broad and 1,200 miles of narrow gauge line, more or less finished. I need not here re-open the once-vexed question of broad *versus* narrow gauge. For all practical purposes that question has long ago been settled. Had we now to consider the construction of long lines of rail, solely or chiefly for military purposes, I doubt not that many arguments might be forcibly urged in favour of a broad gauge system. But, when the object in view is to stimulate the exchange of commodities, and provide for a goods traffic with special reference to local needs and local means, then I think it cannot possibly be doubted that any extension of our railway system must be carried out in strict conformity with that method which experience has proved to be the cheapest, and indeed the only one financially possible in the circumstances of a poor country with a languid commerce. The importance of strategic railroads to such an empire as this, is not, in my opinion, open to question. But it is not for the construction of strategic railroads that we are now seeking assistance from the local populations and governments of India.

"In the course of future discussion upon the Bills we hope to introduce to-day, my honourable colleague in charge of the Public Works Department will, I trust, have an opportunity of making a departmental statement; and, I doubt not, he will then be able to lay before the Council much valuable and suggestive information as to the action of his department in connexion with relief operations. But, with all questions appertaining to the employment of public works for the prevention or relief of famine, I am only now concerned to deal from a financial point of view; and no further than may be necessary for the explanation of those financial conditions which must invariably govern the permanent famine policy of this administration.

"Now, it is an unquestionable fact that the railways, and the railways alone, were the salvation of the situation in North Behár during the famine of 1874; and that they have again been the salvation of the situation in Madras during the famine of the present year. The sea, no doubt, would have thrown rice into the town of Madras; but with the cattle dying of drought it would have been impossible to move the grain up-country; nor, if every possible mile of navigable canal had been completed throughout the Madras Presidency, would it have greatly helped us to throw grain into those very districts where the famine has been at its worst; for the broken upland country of Bellary and Karnul, and the Mysore plateau, are physically impracticable for big canals; and, had there been no railway within reach of these districts, the people, where they have now died by hundreds, must have assuredly succumbed by thousands.

"I am satisfied that the development of a network of subsidiary lines of railway, giving the means of transport through every district of British India, has become a matter of vital necessity for the attainment of the great object now before us. To accomplish this, in accordance with the financial and administrative policy already explained, we propose to call upon the various provincial governments to undertake at once the preparation of such a scheme of local railways, with plans for

their gradual and systematic execution, carefully made out by the best informed local authorities. Our present object is to render available, within the shortest possible time, a maximum length of line specially constructed for a slow goods traffic, rather than to provide those more ample conveniences for passengers and goods which have been commonly deemed necessary for all Indian railways hitherto constructed. We have every reason to believe that, by restricting the works at the outset to the essential requirements of a slow goods traffic, we can, without any sacrifice of durability or sound constructive principle, reduce the first capital outlay even below the amount which was found sufficient for the execution of the Hathras and Muttra Railway in the North-western Provinces; a line which furnishes us with a most instructive illustration of what may be done under a local government in the way of thoroughly useful work executed at a small cost. We have also in the United States of North America an encouraging example of the rapidity and financial ease with which cheap railroads may be constructed over vast tracts of sparsely populated territory, and of the incalculable benefits conferred by them on every part of a continent even more spacious in extent and various in climate than our own.

"During my visit to Madras and Mysore, I had many opportunities of obtaining information about the distribution of grain into the distressed provinces. I cannot doubt that, but for the main trunk lines of railway, there must have been an appalling and quite irremediable failure in the supply of food to those provinces; and, for all purposes of famine relief, I am equally convinced that the proved utility of these great arterial lines will be immensely increased by the cheap internal railroads we now propose to commence, with the intention of completing them as rapidly as may be compatible with the extent of the financial resources at our disposal for that undertaking.

"The early conclusion of such an undertaking must necessarily depend upon its financial practicability; and for this reason all minor considerations must be subordinated to the most rigid economy in construction, and the most severe limitation of the works to what is indispensable for the efficient exercise of their special function. But, if these conditions be duly complied with, I have confidence that, at a comparatively early period, we shall, without any strain upon our financial resources, have extended to all parts and provinces of our empire the most efficacious protection, not indeed from dearth (for that is impossible), but from those terrible effects of dearth which now generally terminate in famine.

"These, then, are the principles on which we are prepared to apply at once to the extension of our railway system, as a means of insurance against famine, an adequate proportion of the resources at our command for that purpose. We cannot, indeed, solely for the sake of developing local commerce, undertake to build railroads on the commodious and costly scale of our present main lines, which have been constructed with a view to their general utility in many other ways. But, with the active co-operation of the local governments, and by steadily adhering to, and prudently developing, the great principle of provincial responsibility which is the backbone of our financial policy, we are persuaded that the resources of the State will now be sufficient for the early and continuous construction of a wide network of cheap provincial lines well adapted to the special object for which they are required. It remains to explain to the Council the manner in which we propose to apply to the extension of irrigation works precisely the same principles and policy.

"Here I must observe that there has recently been a tendency to discuss, in a somewhat partisan spirit, the relative usefulness of irrigation works and railways as protections against famine. I deprecate all such controversial discussions. They are no less out of place than arguments as to the relative value of food and air for the preservation of animal life.

"It is certain that throughout the greater part of India the produce of the soil may still be very considerably increased by artificial irrigation. But it is equally certain that in many parts of India, and for many kinds of Indian crops, irrigation could only be employed at a cost which would render it unremunerative. Canal irrigation cannot everywhere be supplied from permanent sources; and, wherever it is not supplied from permanent sources, it frequently proves altogether abortive as a preventive against famine. Again, in the second year of the drought from which we have been suffering throughout Southern India, tank irrigation generally failed. Moreover, even were it physically possible to apply irrigation to all the cheap millet crops now grown upon the uplands of Madras, the expense of their cultivation by that means would render them quite unpurchasable by the classes who at present derive from them their chief means of subsistence. The difficulties and disasters of the recent famine have been greatest in Madras. But Madras is, taken as a whole, the best irrigated part of India. Out of a total area of 22,000,000 acres under cultivation, that presidency has some 4,000,000 acres artificially irrigated; and its entire irrigation system is supervised by professional officers who, in their own line, are unsurpassed. One part of the irrigation system of Madras is supplied by the permanent rivers; and of these the number is limited. All the rest of it is derived from the local rivers and storage tanks which are scattered in profusion over the whole presidency. Now, the experience of the present year has proved that the latter source of supply is only one degree less dependent on the normal rainfall than are the dry crops of the unirrigated districts. If, therefore, we are to insure Madras against future famines by largely increasing its present water supply, it is exclusively upon the permanent rivers that we must reckon for our attainment of that object. Assume (and from all the inquiries I have yet been able to make, this is the most I feel justified in assuming) that the waters of the permanent rivers might be so employed as to irrigate another half million of acres. What effect would the produce of half a million of acres have had towards preventing the famine in Madras? It would not represent one-third of what the railways alone have carried down from Northern India, and it is about equal to what was landed by sea during only two and a half months out of the twelve through which this famine has lasted. So far, then, as it was possible to render irrigation a protection against famine in a second year of drought, Madras has received, within a narrow margin of some 20 per cent., all the benefit which the nature of the case and the circumstances of the country permitted, and yet Madras has this year suffered from a

worse famine than has afflicted any province of India during the present century. In view of such facts as these, we cannot safely lay down any fixed rule for universal application. The problem of irrigation works, when closely examined, reveals fresh difficulties at every stage. It is easy for those who have not thoroughly examined it, or others who have examined it only from a purely professional point of view, to tell us that by the expenditure of a few millions we might permanently insure this vast empire against famine. But the Government of India, which is responsible for every rupee of public money raised or spent by it, has been taught by bitter experience that there may be many promising and attractive projects for irrigation which, when carried out at considerable expense, and under the most accredited supervision, bequeath to the empire little or nothing but a hopeless financial burden. India has good reason to be proud of her school of hydraulic engineers. But it is the tendency of all professional ability to somewhat exaggerate the general value of the special material in which it works. The Athenian tanner believed that, for the purpose of fortifications, there was nothing like leather; and, so far as I can judge, some of our most experienced and eminent canal engineers are not entirely free from an unconscious predisposition to assume that, instead of irrigation existing for the sake of cultivators, cultivators exist for the sake of irrigation. Whether the value of increased produce will in any particular case be sufficient to justify the requisite outlay of capital on providing irrigation; whether the necessarily limited amount of capital available for works of improvement is best applied to irrigation works; or, again, whether the physical conditions of the locality will practically admit of irrigation at all, to these and many similar questions no general answer can be given. Each case must be decided in reference to its own merits, and on a careful review of many conflicting considerations.

"But, though I feel that, for all these reasons, we must be constantly on our guard against premature generalisations and impulsive action in such matters, I am none the less most fully persuaded that, next to the facilitation of transport, our greatest safeguard against future famine will be found in a well-considered and widely developed system of irrigation works. The surplus produce of industry is the foundation of national wealth; and irrigation is the most certain means of improving and extending agricultural industry. It enables the cultivator to accumulate produce; and, if combined with navigation, it also enables him to transport produce.

"Every country which produces only just enough for its own consumption is a poor country. So is every country which cannot export its surplus produce and exchange it for other commodities. Therefore, admitting even that in many parts of India irrigation cannot appreciably augment the local food supply, it by no means follows that irrigation cannot largely augment the wealth of the whole community; for, if this empire be adequately provided with the means of transport, it is not so much by increasing the actual food-supply of the people, as by helping to create other and different produce, not required for the consumption of the people, and possibly not even adapted for such consumption, that extensive irrigation will promote the social and financial prosperity of India. It is only by the gradual and continued improvement of their material condition that the people of this country can permanently escape the calamities they now suffer from the uncertainty of the seasons.

"To look to irrigation works as a panacea for our misfortunes would be to trust to an illusion; to hesitate to recognise them as among the most certain of our means of protection, would be to reject the irrefutable evidence of prolonged experience.

"A memorandum has been placed in my hands showing, from the latest returns of the actual operation of the irrigation works in the North-western Provinces, that the whole area now irrigated by them is about 1,500,000 acres; which, under pressure, might be extended to 1,600,000 acres, producing respectively 775,000 or 800,000 tons of grain, and providing food for eight months for six million to six and a half million persons. The progress of these works will add half a million of acres, and this addition would yield one quarter of a million tons of food, and feed for eight months two millions of people. Thus, these works will secure the food, for the period named, of between eight and nine millions of persons.

"I need not comment on these figures; but, while such results may be shown as the outcome of irrigation works, what, let me ask, would be the position of a province which, the produce in it being considerably in excess of the ordinary wants of the people, was not provided with the means of exporting its surplus stocks? Of one great staple product of the north of India—wheat—it may be affirmed, with certainty, that a trade has been developed, during the last four or five years, chiefly through the agency of railways, which has already reached a value of two millions sterling, and which could never have come into existence by any other means. Without depreciating the great value of water communication, which I recognise most fully, so far as it is practically attainable, I cannot lose sight of the fact that the extension of the electric telegraph and of steam navigation have rendered the operations of modern trade more than ever dependent on time as an essential element in all combinations; and thus the speed which can only be got by railways enters more and more largely into the considerations to be weighed in designing means for giving the necessary extension and improvement to our inland communications.

"I conclude, then, that we shall be certainly right in carrying out irrigation works wherever the water supply is both sufficient and constant, and wherever the material difficulties to be overcome do not involve an outlay that interposes insurmountable financial obstacles; so long, of course, as due attention be at the same time given to the means of communication. But we cannot, and do not, undertake to provide irrigation gratuitously to those for whose special benefit it is required. We cannot afford to apply to new irrigation works the financial policy which has hitherto rendered so costly, and so unremunerative, the works of that kind which are already constructed. Here again we can only proceed in strict accordance with the principle of provincial respon-

sibility and self-support. As the only funds at the command of the Government for irrigation works are derived from the country itself, the cost of such works must fall to a great extent upon those who derive from them immediate benefit. I repeat that it is on the co-operation of the whole community we reckon for the means of securing the whole community against the worst consequences of periodical scarcity. But it is to the local governments that we look for the execution of local works of a preventive character; and it is upon local resources that we must depend for the ultimate supply of the funds necessary to provide and maintain such works. I am aware that there are already some parts of India whose exclusively local interests are practically secured by the bounty of nature, or the industry of man, from the direct effects of famine. In the nature of things the population of those particular localities may, and probably do, derive some immediate advantage from the periods of scarcity which so fearfully afflict their fellow-subjects in other provinces. But it would be an insult to suppose that their fortunate exemption from the perils and sufferings common to the rest of the community can furnish any argument they would stoop to urge in favour of exempting them from their fair participation in the support of any general burden imposed for the protection of the whole community from such sufferings and perils. Whilst, therefore, I do not doubt that the chief cost of protective works ought to be borne by those who most need them, and will chiefly benefit by them, I must maintain that no province of the empire, and no class of the community, can be legitimately relieved of the national obligation to contribute to the means required for the construction of such works.

"And here I would ask the Council to listen to the testimony of my honourable friend the Lieutenant-Governor of Bengal, who, speaking of the measures he contemplated last spring for dealing with irrigation works in the province he so ably administers, observed that,—

" ' During the last five years the Government of India has spent nearly twenty crores of rupees in alleviating famines caused by deficient water supply. When I say that the Government of India has spent this money, you will understand that this expenditure has fallen not upon the Viceroy and the Council, but upon the people; and that, if the necessity of expending their money had not been forced upon the Government, the taxation of the people would have been diminished to this extent. Now, the only way of averting famines arising from drought is to make the greatest use which science and experience can suggest of the supply of water which fortunately nature has given us in Behár. * * * This, of course, cannot be done without the expenditure of money, and the question is, who, in fairness and justice, should find this money? "

" ' After very careful consideration, I came to the conclusion that, as the whole of the province of Bengal suffered when there were such famines as have occurred of late years in Orissa and Behár, it was fair that a large proportion of the cost should be borne by a tax laid upon the public at large. But it also seemed to me fair, and I believe you will agree with me, if you will give the subject your unprejudiced consideration, that a share of the cost should fall on the people who directly benefit by the introduction of water to the neighbourhood of their fields, and are thus assured of a good crop at all seasons, instead of being exposed to the risk every few years of absolute failure. When I proposed this, I was told that the people did not want water; that they would sooner be left alone to bear the risk of famine, and was even told that the water of the Son was destructive to fields. Shortly after this discussion took place, the periodical rains were suspended, and then we had practical proof as to whether or not the Son water was considered injurious or prejudicial. The people clamoured for water, and, to meet this demand, we were forced to open our unfinished canals, by means of which we have irrigated, during the last few months, 200,000 acres of land, which would otherwise have remained waste for the year, but which are now covered with luxuriant crops. The produce of this land represents food-grain of the value of 55 lakhs of rupees, and of this crops to the value of 40 lakhs certainly would have been entirely lost if it had not been for the supply of canal water; but it also represents the rent of the land, of which the landholder would have been otherwise deprived; and to this must be added the outlay which would fall on him if he had again to give relief to his tenantry in consequence of famine. "

"To sum up, then: The Government of India is convinced, upon a careful review of its financial position and prospects, that the heavy obligations imposed upon it by the calamitous circumstances of recent years can only be discharged without serious risk to its financial stability, by a strict and patient adherence to the principle affirmed in the financial measures we introduced last year, and developed in those which are now before the Council. That principle involves the enlargement, with adequate precautions, of the financial, and consequently also of the administrative, powers and responsibilities of the local governments. In the next place, we believe that, if this principle be fairly carried into effect, the new imposts which the Council is now asked to sanction, will, when added to the resources already created, provide the State with sufficient means for the permanent maintenance of a national insurance against famine, without heavily increasing the pecuniary burdens of its subjects. For the attainment of this object, the material appliances we intend to promote, by means of additional revenue, are cheap railroads and extensive irrigation works. We are conscious of the reproach we should justly incur if, after such a declaration as I have now made, the prosecution of these necessary works were commenced, suspended, or relinquished, according to the increased or relaxed pressure of annual circumstance, or the intermittent activity of spasmodic effort. We therefore propose to entrust, in the first instance, to the local governments the duty of framing a sufficient and carefully considered scheme of local railroad and irrigation works. We are prepared to provide them with the means whereby they may from year to year work systematically forwards and upwards to the completion of such a scheme. The funds locally raised for this purpose will be locally applied. But provincial governments will have to meet the cost of provincial famines out of provincial funds to the fullest extent those funds can bear. They will find that thriftless expenditure in one year may involve the risk of diminished allotments in subsequent years, and I cannot doubt that the unavoidable

recognition of this fact will make them wisely eager to spend the requisite proportion of their annual income upon well-planned and carefully estimated railway and irrigation works ; which will be their best insurance against the losses of famine, and the postponement of all administrative progress which famine generally entails. It will be the special duty of the Public Works Department of this Government to keep those objects constantly in view of the local governments, and to assist them no less constantly in their endeavours to give a rational preference to really useful and remunerative works, over those more captivating, but less compensating, subjects of expenditure which, in all comparatively small communities, so powerfully appeal to provincial pride, professional proclivities, or popular pleasure.

“ The specific projects now announced to this Council I have not presumed to put forward as the enunciation of any new policy. On the contrary, I should have spoken with much more hesitation if I imagined myself to be treading upon ground not long since surveyed by experienced authorities ; and the strongest recommendation I can claim for the views I have expressed is that they differ in no important particular from those of the eminent statesmen who have preceded me in the office I now hold. But, between the present and all previous occasions on which the Government of India has declared its policy and principles in reference to the prevention of famine, there is one essential difference which I am anxious to impress upon your attention. I can well imagine that many of those I am now addressing may be disposed to say to me,—‘ Your good intentions are possibly sincere ; but the path to the nethermost pit is already paved with good intentions. Promise is a good dog, but performance is a better ; we have often heard the bow-wow of the first, we have yet to see the tail of the second. We have been told over and over again by the highest authorities that India is to be insured against famine in this way, or in that ; but, when famines come upon us, we find that the promised way is still wanting. The current claims upon the activities and resources of the Government of India are so numerous, so pressing, so important, official forces and imperial funds so necessarily limited, that, when once the daily, hourly strain of a great famine has been removed from a wearied administration and impoverished treasury, its fearful warnings are soon forgotten ; its disquieting ghosts are quickly exorcised by the conventional declaration of some unexceptionable principle ; its bitter memories decently interred beneath the dull *hic jacet* of a blue book ; and there, for all practical purposes, is an end of the matter.’

“ Well, then, I think I am entitled to point out to the Council that we are not now fairly open to this customary criticism. We do not speak without having acted ; and we promise nothing which we have not after long and anxious consideration provided ourselves with the means of performing. I must have very imperfectly explained myself thus far, if I have failed to make it clearly understood that I am not now speaking of what we ought to do, or would do, to insure this country against the worst effects of future famine, had we only the means of doing it ; but of what we can do and will do with the means already provided for in the measures now before the Council. I do not mean to say that the construction of such an extensive system of local railroads and irrigation works as we propose to undertake will not be the gradual task of many years. But I do mean to say that, in the manner and on the principles already explained, we are now providing for the prompt commencement and uninterrupted continuation of this great and necessary task. We are systematising a policy the principles of which have been repeatedly approved and proclaimed by our predecessors. We are associating with it the interests, the powers, and the duties of our local administrations. We are providing them with the means of permanently prosecuting and developing it, not without reference to our financial control, but exempt from the distressing uncertainty which has hitherto been inseparable from the practical execution of this policy, in consequence of the obligation which till now has rested on the Government of India, with the very limited funds at its disposal for the prosecution of public works, to choose, from year to year, between the conflicting claims upon its purse of the various and dissimilar localities of this spacious empire. In that belief I wish to take the present opportunity of publicly expressing my gratitude to those local governments with which we have been for many months in confidential correspondence on the subject of their financial powers and responsibilities ; and who have not only accepted with alacrity, and adopted with great intelligence, the principles in accordance with which we desire to extend those powers and responsibilities, but have also given us the most encouraging evidence of their ability to improve the large field of activity thus opened to their administrative independence. I also desire to express my gratitude for the unreserved approval with which the Secretary of State for India and the Queen’s Government in England have honoured and supported the policy I am now explaining to the Council ; for it is a policy on which all our plans, and all our hopes, for steady improvement in the financial, social, and administrative condition of this empire, are necessarily dependent.

“ But we have also another source of encouragement in the prosecution of this policy. If you look back over a wider and a longer tract of experience than that which is covered by the history of India ; if you embrace in one view our own history with the past history of other countries in other climates, you will find that the principles on which we have lately acted, and on which I trust we shall continue to act, in dealing with seasons of calamitous drought, have been found no less applicable, no less efficient, in other countries similarly affected, than they have proved to be in this country, wherever they have been intelligently understood and loyally carried out. There is, I venture to think, no more striking illustration of this truth than the history of the scarcity that occurred in Central France during the year 1770–71. That great statesman M. Turgot was then minister. His administrative ability was equalled by his philosophical power of thought ; and, fighting with difficulties in many respects almost identical with those which we, ourselves, have lately had to deal with—difficulties partly material, but greatly aggravated by the prevalence of extremely erroneous economical conceptions,—Turgot conceived, developed, and, in the face of great

opposition, carried into effect, views no less identical with those which have guided our own action as to the essential importance of guarding the perfect freedom of inland trade in grain; of improving the internal communications of the country; and of providing relief works of permanent utility, upon which to employ the suffering population. Here, to-day, in India, those views are as sound, and as applicable, as they were in the Limousin a century ago. If, then, from the past we look forward into the future, why, let me ask, may we not hope that, under improved conditions of administration, and with increased development of those material appliances which civilization creates for the provision of national wealth, India will eventually enjoy as complete an immunity from the worst results of scarcity, as that which now exists throughout those regions of France where but a century ago such a result might have seemed as difficult of attainment as it now appears to be in many of our own provinces?

"I have only dwelt thus far on that part of our policy which has reference to the material aids we still require to ensure this empire against the worst effects of famine. But I should omit a very important point if I did not also allude to the administrative aspect of the question. In dealing with the crisis through which India has lately passed, it has required the most strenuous efforts, on the part of the Civil Government in all its branches, not only to secure the active operation of all available means for bringing food to the distressed districts, but also to effect the distribution of such food to the people, under proper precautions for the prevention of waste, fraud, and social demoralization. I will not disguise my conviction, that in some parts of the country this strain has been too much for the machinery that had to bear it; and, indeed, I may add that the measures undoubtedly necessary for strengthening, simplifying, and generally energizing, those parts of the local machinery of Indian administration which have proved too cumbrous, too weak, or too inert, for efficient work in any great emergency, have been to me for many months the subject of constant, anxious, and detailed consideration. It is, I venture to think, very desirable that not only the natural phenomena and social facts of the recent famine, but also the manner in which these have been dealt with in different provinces, under different administrative systems, and the practical results thereof, should be investigated, verified, and recorded for future guidance. But, whatever be the result of any such inquiry, if to the two conditions of famine insurance on which I have already laid such stress, that is to say, railways and irrigation, you add a third condition, which is certainly not less important, namely, a thoroughly efficient administrative system and machinery in every part of the empire, for the prompt and intelligent application of sound principles, then, I believe, you will have reached the limits of what is practically possible, and defined the field of activity within which it is now the duty of this Government to fortify betimes the social interests committed to its charge against the recurrent disturbance of natural forces. The Government of India is an eminently Conservative Government, and I trust that it will ever continue to be so; but, to repeat an aphorism, the soundness of which is proved by the staleness of it, improvements really required by change of circumstances are the best foundation for a Conservative policy, and in no way opposed to it. No administration is really Conservative unless its policy is vigilantly, though cautiously, remedial. Timely remedy from above is the only sure preventive of violent revolution from below. Destiny is a fair player, and never checkmates a nation, a Government, or a class, without first crying 'check.' It is the interest as well as the duty of those concerned to heed that warning cry, and shift their pieces accordingly. In politics, as in all things else, the survival of the fittest is an inexorable law; and those institutions which cannot, or will not, spontaneously adapt themselves to the organic growth of the circumstances to which their functions were originally fitted, are doomed, by the salutary order of the universe, to premature extinction. But into this important question of administrative reform I need not here enter any further. I merely desire to assure the Council and the public that the Government of India is not indifferent to that part of the difficult but imperative task bequeathed to it by the prolific experience of the last two years.

"In framing the measures now laid before the Council, we have called to our assistance the experience and intelligence of many of the most trustworthy servants of the Crown in this country, and we have obtained for our plans the general approval of Her Majesty's Government. That the duty imposed on us in performing this task has been an anxious one I need hardly say. Its successful accomplishment is only to be ensured by the cordial and sympathetic co-operation of all concerned. But on that co-operation I confidently reckon: Firstly, because it is the duty, as well as the interest, of every Englishman, whether in public or in private life, to facilitate the arduous task which England has undertaken on behalf of India and her own character; and secondly, because I know too well, and esteem too highly, the noble native races of this land to doubt for a moment their patriotic acquiescence in any reasonable sacrifice fairly demanded of them, on honest grounds, for the general benefit of their own countrymen. On behalf of the Government of India, I emphatically declare that we have not, we cannot have, at heart any stronger or higher interests than the permanent welfare of this loyal and patient people, and the permanent credit of its English rulers. These are the interests on behalf of which we now invite your aid, and *quid saluum est si Roma perit?*"

The motion was put and agreed to.

The Honourable Sir J. Strachey then introduced the Bill. He said:—"My Lord,—In now introducing this Bill—and the remarks which I am about to make will be equally applicable to all the other Bills in this list, excepting the Salt Bill—I wish to say a few words only. The Government is anxious that our proposed measures should be placed before the public in the most complete form possible, and this object would not be gained unless the Bills, by which we are to carry out our measures, are at once introduced and published.

"I do not now ask that the Bills be referred to a Select Committee, nor is it proposed that any further action should be taken upon them for another month at least. We hope, during this time, to

receive the greatest advantage which an honest Government can derive—the full examination and public criticism of our measures.

“As your Excellency once said, we do not want candlelight, but daylight; and there is no intelligent expression of opinion which we shall not welcome under the difficult circumstances with which the Government has to deal.”

No. 128.

TELEGRAM from the VICEROY, January 8, 1878.

To prevent misconception as to incidence of special famine taxation, the following approximate estimate is given. The extended provincial arrangements will give 400,000*l.*; the new taxation, excluding this, gives 1,100,000*l.*; total charge on land 425,000*l.*, total charge on traders 675,000*l.* In Bengal and rest of Northern India incidence on land and trade nearly equal; in Bombay and Madras new tax falls only on traders, thus occasioning excess in trades on total sum. The rates now imposed on land in other parts of Northern India are not extended to Bengal only, because this portion of Bengal's share in general burden was provided by Bengal law passed last summer. Thus all parts of India proper are equally taxed for famine purposes except Madras and Bombay, which are relieved from taxation of land on account of increase in salt duty. No part of India has suffered more severely from famine in past times than North-western Provinces; recent comparative sense of security in these provinces essentially due to great development of irrigation and railroads which insure North-western Provinces at public expense, thus justifying same taxation there as in other provinces to which similar protection has still to be given.

No. 129.

EXTRACT from the PROCEEDINGS of the LEGISLATIVE COUNCIL of the GOVERNMENT OF INDIA, January 9, 1878.

His Excellency the President said,—“Before adjourning the Council, I wish to take this opportunity of informing honourable members that I have requested my honourable friend Sir John Strachey, on the occasion of our next meeting, to explain to the Council the course we propose to follow with reference to the Taxation Bills which he obtained leave to introduce on the 27th of last month, and I understand from him that he will be then in a position to do so. I may mention, also, that, as my honourable colleague Sir Andrew Clarke is obliged to leave Calcutta for a short period on public business, he will also take advantage of the same occasion to make a statement on the policy of the Government in the administration of the Department over which he himself presides.”

His Honour the Lieutenant-Governor said that, with reference to what his Excellency the President had just said, he might perhaps be permitted to express a hope that no unnecessary delay would occur in passing these Bills into law. Local legislation depended very much on the shape which these Bills would take, and, naturally, until their shape was finally settled, there was great doubt and unsettlement in men's minds as to the exact extent to which their interests would be affected by fresh taxation; and he thought this doubt and unsettlement were mischievous to the public mind, and embarrassing to the Government, and it would be well, therefore, for the public to know exactly the form which taxation would take. His honourable friend's measures had been well received, and the necessity for further taxation had been loyally recognised, and therefore his Honour believed there was no real reason why these measures should not be pushed through the Council as speedily as might be. It would assist the local government very much if these Bills were passed, not only by getting rid of the doubt to which he had referred, but, as the cold season was drawing to an end, it was desirable that district officers should take measures for the assessment of the license tax and the performance of the work under their immediate eye. If the passing of these measures was deferred, we should have the hot weather setting in; district officers would no longer be in camp, and the work would fall a good deal into the hands of native subordinates. He also hoped his honourable friend would take the opportunity of explaining definitely the scheme the Government of India had under consideration in respect to the expenditure of funds raised for famine relief.

As he understood his honourable friend, the money which was to be raised by the local governments and paid to the Government of India would, to some extent, take the place of loans which would otherwise have to be raised for extraordinary works, and would be expended on works of a remunerative character in the provinces finding the money, loans being reduced to the extent to which it would be unnecessary to have recourse to them, in consequence of the increased revenue from fresh taxes. Some doubt was experienced on this point in his Honour's Council, and he was hardly in a position to explain exactly what the views of the Government were.

His Excellency the President felt quite sure that the views of his Honour the Lieutenant-Governor, and the grounds on which those views had been expressed, would be duly borne in mind by his honourable friend Sir John Strachey when he made his statement at the next meeting of the Council, and that he would take that opportunity of explaining the views of the Government of India in regard to those matters.

No. 130.

TELEGRAM from the VICEROY, January 11, 1878.

10th January 1878. At meeting of Legislative Council yesterday, Lieutenant-Governor strongly urged early passing new taxation Bills now before our Council. Local legislation, he said, depended much on final shape of our measures which had been well received, and necessity for which had been loyally recognised, thus justifying their being passed speedily; delay caused mischievous doubts in public mind, and might prevent work of assessment being conducted under European officers in remainder of cold weather. This last consideration has been pressed by all the Governments in Bengal Presidency to which alone our Bills refer. Temper of public mind at present is so entirely favourable that we confidently rely on unanimous approval both in Council and outside, which also makes delay undesirable. We shall therefore now let the Bills go forward in regular course.

No. 131.

TELEGRAM to the VICEROY, January 12, 1878.

Yours, 11th. I have no objection to Bills going forward in regular course.

No. 132.

REPORT of the DEBATE in the LEGISLATIVE COUNCIL of the GOVERNMENT OF INDIA, on the 16th January 1878.

THE Honourable Sir John Strachey moved that the Bill for the licensing of trades and dealings in the Punjáb, the North-western Provinces, and Oudh be referred to a Select Committee, consisting of the Honourable Messrs. Stokes, Cockerell, and Colvin, the Honourable Nawáb Faiz Ali Khán and the Honourable Mr. Morgan, and the Mover. He said—

“My Lord,—At the meeting of this Council last week, your Excellency stated that I should be able to explain to the Council to-day the course which the Government proposes to follow with reference to the Taxation Bills which were introduced three weeks ago.

“His Honour the Lieutenant-Governor expressed at the same time a strong opinion that no unnecessary delay ought to be allowed in passing the Bills into law.

“He said that local legislation depended much on the shape which these Bills might take, and that, until that shape was finally decided, doubt and unsettlement must remain in men's minds as to the extent to which their interests would be affected by fresh taxation. He said that this doubt and unsettlement were mischievous to the public and embarrassing to the Government, and besides this he urged this important fact, to which I myself drew the attention of the Council when the Bills were intro-

duced, that the work of assessing the license tax ought to be carried out by the European officers personally before the cold weather now passing away was over; otherwise the work would inevitably fall into the hands of native subordinates.

"Similar representations have been made by several of the other local governments. It had originally been the wish of the Government of India that a somewhat longer period should be allowed to elapse before these Bills were proceeded with; but, on reconsidering the question, the Government fully recognises the force of the reasons given by his Honour the Lieutenant-Governor for the opinion that the Bills ought to be passed without needless delay.

"If the measures proposed by the Government had been less favourably received, the case would have been different, and it might have been right to give more time for public discussion and criticism. The Bills, however, have now been before the public for very nearly three weeks, and it was a cause of much satisfaction to me to hear from my honourable friend the Lieutenant-Governor that he was satisfied that our measures had been generally well received, and that the necessity for further taxation had been loyally recognised.

"The Government, therefore, proposes that the Bills shall now be gone on with in the usual course. I am about to move that they be referred to a Select Committee, and, when the report of the Committee has been laid before the Council, it is proposed to proceed with the Bills as speedily as may be found convenient.

"I have only one other point to notice.

"At the last meeting of the Council, my honourable friend the Lieutenant-Governor expressed a hope that I would take an opportunity of explaining the scheme which the Government of India proposed to adopt in regard to the expenditure of the funds which we are now proposing to raise by fresh taxation.

"I think this wish of my honourable friend entirely reasonable, and, before the Council is asked to pass these Bills into law, I shall endeavour to give the fullest explanation in my power in regard to this subject.

"I feel confident that I shall be able to satisfy the Council and the public that the resolution which the Government has proclaimed will be faithfully carried out, and that the proceeds of these new taxes will be expended for the purpose of providing what I have called an insurance against famine, and for no other purpose whatever."

The Honourable Mahārāja Jotíndrá Mohán Tagore said: "My Lord,—I have listened with attention to what has been said by the honourable member who has just spoken, and I crave your Excellency's permission to occupy the time of this Council with a few remarks. I feel sure that the people in general will in all loyalty willingly submit to the proposed taxation, when it is shown that the exigencies of the State necessitate its imposition, and, considering all circumstances, I am inclined to think that the proposed license tax is the best that could be suggested, next, perhaps, to an income tax with a high minimum of incidence. As a non-official member of this honourable Council, I deem it my duty, however, respectfully to represent to your Excellency the strong impression which exists among the people, that there is considerable room for retrenchments in the home military charges as well as in the army and public works expenditure here, and that no additional tax ought justly to be imposed on the people before such retrenchments have been effected. As to the practicability of the reductions, they are supported in their views by no less an authority than your Excellency's distinguished predecessor, Lord Northbrook; and this Council will remember the correspondence which passed between the War Office and the Duke of Argyll, when his Grace was the Secretary of State for India, with regard to the depôt and recruiting charges. I am glad to see that the honourable member in charge of our finances entertains similar views with regard to military expenditure, and, although he said on a former occasion that your Excellency's Government will endeavour by representation to the home authorities to effect necessary retrenchments, he has unfortunately for us been able to hold out little hope of success. Now, my Lord, the people of this country have no voice in the British Parliament, and they have no exponent of their views in the India Office; they naturally look up to your Excellency's Government as the protector and guardian of their interests. I hope your Excellency will allow that, as loyal subjects, they have a right to expect that this Government will not simply represent, but represent with all the force and earnestness which sincerity of conviction imparts, that it cannot consistently with justice impose fresh burdens upon the mute millions mostly living from hand to mouth, until all possible reductions in expenditure have been effected. The generous instincts of the British nation and the love of fair play which distinguishes them will,

I feel confident, be on the side of justice to India, though the adjustment of the financial relations of England with India on an equitable basis were to affect their own pockets and interfere with patronage in certain high quarters. But we are aware that reductions in expenditure cannot be made all at once, while the deficit in the revenue must be immediately met. Taxation, therefore, is a matter of necessity. There is a widespread apprehension however, which, I confess, is not quite unfounded, that taxes once imposed are not easily or soon removed. For this reason I would take the liberty respectfully to suggest that the Select Committees to which the Taxation Bills are to be referred may be asked to give their special consideration to the question whether the Bills should not be so modified as to limit their operations to a certain period, say two or three years, so that there may be ample time for representation to the Home Government and the British public of the grievances of which we complain. This course, I submit, will be an assurance to the people that your Excellency's Government is in earnest to do all it can to effectuate reductions, and will inspire them with a confidence that no new permanent burden will be laid upon them until all efforts of your Excellency's Government to persuade the people of Great Britain to deal justly by the helpless millions of this their great dependency have absolutely failed.

"One word more, my Lord, and I have done. Regarding the application of the money to be raised by taxation, with every deference to the honourable member in charge of the Bills, I am humbly of opinion that it should be formed into a separate fund with a separate account, and not be merged into the general revenue, so that it may satisfy the people that it is what in reality it is intended to be, a separate famine fund; they will also have an opportunity of knowing what portion of it, if any, is applied to the repayment of previous famine loans, and what portion is spent on the construction of famine insurance works, and how far those works answer the purpose for which they are intended; for, not to mince matters, there is a general conviction that some at least of the irrigation works which have been executed have turned out to be, as Colonel Corbett has shown, works of experiment rather than of experience."

The Honourable Sir Andrew Clarke said: "My Lord, the Council will, I trust, permit me to offer a few observations which, from the relations that are now recognised to exist between famine and public works, may not be wholly unacceptable or without interest; and the more so as, the administration of the latter, being my particular function, some declaration of our policy may be looked for in the light of the teachings of our recent sad experience.

"It is hardly time for us to review the history of the famine that is passing away, though not yet completely gone, in the Deccan and Southern India. Scarcity and high prices of food there, as well as in other parts of the empire, still remain, and render it as difficult as it is premature, to come to any finite conclusion as to the exact cause of the calamity, or to dogmatise on the remedies that should be applied to meet the recurrence of famine in the land.

"Unhappily, as handed down to us, we have many and varied precedents, both administrative and economic, not all consistent, however, and not all wise or good, for us to accept as standards for our guidance, or as models to imitate; some, in fact, are rather the reverse. You, my Lord, have discussed this section of inquiry in your Minute of last August. But, whether looking backward or forward, our object is to ascertain what is the policy to accept, the practice to adopt, in order to enable us, if we cannot abolish famine—an end, I fear, hopeless to be attained—to do at any rate what we can to limit its area, to localise its scourge, to mitigate its intensity.

"But here I may ask, though no complete or satisfactory answer, I fear, can yet be given, to what are high prices, scarcity, or famine due? And why in recent years have these been so recurring, so severe, so virulent?

"Are there causes, possibly as potent, but silently at work, to bring about these visitations, besides mere atmospheric phenomena?

"Is there less thrift than formerly? Is the surplus of full harvests no longer stored, but sold, and the proceeds dissipated? Has population increased, and in proportion food produce diminished? Have edible grains given place to more paying crops?

"It is possible that these causes are at work here and there, in isolated places, due to special circumstances, but I am inclined to think they are not by any means general. Their consideration, however, calls for thorough scrutiny and investigation, a duty pertaining, in its early stages at least, to the economist and statistician rather than to the engineer.

"In connexion with this, I would mention one incident of grave practical moment

in the late famine. It is known that more than two-thirds of the autumn and spring harvest failed over an area inhabited by 30 millions of people, and that during the period, some 10 months, of the greatest intensity of this famine, the food imported could only have helped to feed one-third of this multitude; yet at the instant the fresh harvest was assured, prices dropped and import ceased. This might lead to the assumption that Southern India held within itself, even when its harvests had failed, stores of grain nearly sufficient to feed its people for the whole time, and yet we were assured on all sides at the end of last and the beginning of this year that there were no reserves of food, or next to none, in that country. Is it impossible to devise a means by which our knowledge on this all important point may in the future be, if not absolutely reliable, at least not absolutely nil?

"Again, the facts of the grain trade of Northern India present some features which it may be worth while to note, and which suggest that vast reserves are still in hand, notwithstanding the enormous export trade of the last two years, and particularly of the present year.

"The export of wheat from Calcutta on an unusual scale commenced in May 1876, just after the spring or wheat harvest had been garnered. Wheat then sold at Cawnpore for 27 seers per rupee, and the export rose from 150,000 maunds in April to 540,000 maunds in July, but checked (apparently by a rise in price in July to 22½ seers) fell in August to 265,000 maunds. At the end of August the price again fell to 27 seers, and the exports rose to 560,000 maunds (the maximum of the year) in October. It was about this time that the signs of approaching famine were unmistakable.

"From the end of August the price rose till nearly the middle of December 1876, when it was 21 seers for the rupee, and the exports in January 1877 fell to 120,000 maunds.

"Now, it is since January 1877 that the extraordinary export has taken place, thus anticipating by at least three months the course of trade of the previous year; but prices remained constant from December till the beginning of April at 20 to 21 seers.

"War was declared in Europe on the 23rd April 1877.

"By May the exports had risen to upwards of 1,000,000 of maunds, and with a slight check in June (the price had risen to 16 seers in May), reached its maximum (1,270,000 maunds) in August, the price having been 19½ seers early in June, and 18 seers early in July.

"From June till the early part of August there was no great variation in price, but in the latter half of that month the price rose to 15 seers, reaching its maximum in the latter half of September, when it stood at 11 seers. The autumn crops of Northern India had failed, and the export trade fell suddenly to 440,000 maunds in September, was 255,000 maunds in October, and 235,000 maunds in November.

"Thus, so far as we can see, the enormous abstraction of grain for export from Bombay as well as from Calcutta, in addition to what was sent to the famine districts of Western India, did not cause a greater variation in the price of wheat at Cawnpore between December 1876 and August 1877 than is represented by a difference of 4½ seers in the quantity obtainable for one rupee.

"But the moment one harvest had failed and the sowings for the next were in jeopardy, the law of self-preservation appears to have asserted itself, and we may, I think, deduce from the rapidity of its action that the reserves are great, and if, as I was informed, more than 100,000 tons of shipping were left without freights, we have an index of the trade which had been reckoned on, by those most fitted to estimate the power of the supply, to equal the demand.

"No doubt there are tracts of country which, formerly growing food for home consumption, now grow produce for export, and depend for their support on supplies from without; but, accepting this, what follows will, I think, show that this is a source of satisfaction rather than a cause for regret, since in the restoration of the balance we find the very weapon with which to fight famine; for the fleecy capsules of the cotton plant, or the jewelled diapers of the poppy, feed their cultivators with no less certainty than the crops of the rice swamp, or of the wheat field, feed those who raise them.

"The agricultural returns of India, from which much might have been gleaned, are not very complete, or rather they are not as yet in a very accessible form, but Mr. Bernard has been kind enough to give me a note which will make a review of them intelligible. He says—

"The best return I have been able to get of the area cultivated and the area under food crops in different parts of India, incomplete it is true for some provinces, but

‘ still sufficient for our purpose, shows that in our most thickly-peopled provinces there are about 75 to 80 acres of land under cultivation to every 100 persons, and that out of those 75 to 80 acres 65 to 70 are under food crops. For instance, Oudh, with its dense population of 14 millions, has 9 million acres of cultivated land, of which 8,200,000 acres bear food crops. Madras has 21 millions of acres under food crops for its raiyatwari population (excluding zamindaris) of about 27 millions. Mysore has $4\frac{1}{2}$ millions of acres under food for its population of 5 millions. British Burma has $2\frac{1}{2}$ millions of acres under food, with a population of $2\frac{3}{4}$ millions. The Central Provinces, where the land is poor, and cultivation is slovenly, and where there are grown much cotton and oil-seeds, have only 13 millions of acres under food crops out of a total of $18\frac{1}{2}$ millions of cultivated acres, but then its population is only $9\frac{1}{4}$ millions. There are great differences in provinces; for instance, British Burma exports annually 800,000 tons of rice, that is to say, it produces from two to three times as much food as its people require. Assam, on the other hand, has also a very rich soil, a heavy and never-failing rainfall, enormous areas of virgin land, yet she does not produce food enough for her people, and has to import food from thickly-peopled Bengal. But, so far as I know, Assam is the only province in this case, and all the other provinces of India produce enough food for their own support and for export as well.

“ ‘ A great deal has been said of late years about the vast areas put down with opium, cotton, indigo, seeds, and other crops, to the exclusion of food crops, and to the exploitation of India for the benefit of rich traders and of distant populations. But much of this kind of talk is due to ignorance; for, out of the cultivated area of British India, estimated at about 160 millions of acres, only about 580,000 acres are under opium, and little more than one million acres under indigo, 8,000,000 oil-seeds, and 10,500,000 acres under cotton, most of it for home consumption in India, while at least 130 millions of acres are under food crops. And an acre of food crop land will, in an ordinarily good season, support two people if the produce of one province be taken with another. In Burma and Bengal one acre supports three to four people; in the Central Provinces and Bombay it supports less than two. No doubt the area under such crops as oil-seeds, jute, and oil-bearing roots, has increased greatly during the last 10 or 15 years. But then the total area under the plough has also increased vastly. In the Madras Presidency alone I find that Mr. Dalrymple, no mean authority, wrote in 1867 that the cultivated land in certain districts of Madras had from 1856 to 1866 risen from 10 millions to 16 millions of acres, so that it is quite safe to say that the area of food-crop land in India is now as high or higher compared to the population than it was in old times, notwithstanding the great extension of non-food staples like linseed and rapeseed.’

“ My object in calling attention to this statement will be patent, and, I trust, conclusive. It is this, that, even if drought and dearth were more extensive and widespread than they have been in the most disastrous of Indian famines, the empire can still from its own soil feed itself, and I say this with the full knowledge that we have drawn rice from beyond the limits of the empire.

“ The significance of this fact should go far to reconcile us to accept, not with cheerfulness certainly, but with resignation, the proposals of my honourable colleague; and this consideration recalls me to my more immediate object, that, though the measures for which we now seek assent are the premium which we must pay for insurance (I fear only for a part insurance), and though it is to be hoped that sweet nature will give us a little longer time for recovery and restoration before she again withholds from us her bounteous and fruitful gifts, we must, in wisdom and with prevision and energy, use the opportunity of husbanding with knowledge, as well as of distributing with certainty and rapidity, those gifts, so that our peoples may not again suffer as they have in the past.

“ Severe as the dearth and consequent distress have been from which we are now emerging, there has been no dearth of suggestions for the remedy and prevention of a similar state of things. These suggestions are as varied in their scope as they differ in the means required to give effect to them, ranging from a scheme to cost only a hundred million sterling, but the money did not come with the scheme, to the simpler and certainly less costly introduction of a patent two-wheeled cart for horse or bullock draft (my friend forgot to tell me how the cattle were to be fed), or to a cheap and simple windmill for pumping water, but I was not told how the water was to be raised when there is no wind, the normal atmospheric condition of India when water is most wanted.

"And now, my Lord, in what I am about to say on the particular specific that has been so boldly proffered to us, on many sides from many irresponsible authorities, as the certain cure and remedy for all our ills, I desire most emphatically to record the fact that, though not an irrigation engineer myself (for my experience in this field of my profession has been very limited), I have approached the consideration of the subject as applicable to all India, prejudiced in favour not only of irrigation, but also of inland navigation, and that one of my dreams has been the hope that during the time I was to sit at this Council Board I would unite the waters of the Arabian Sea with those of the Bay of Bengal by an inland channel.

"The stern realities that confronted me have dispelled this illusion, but at any rate this bare statement should clear me from the charge that, because I have had larger experience in railways, I am therefore biassed in favour of railway enterprises.

"The construction of irrigation and navigation works must strike the most heedless as the most obvious way of preventing famines. Water in ample abundance, rushing and racing to the ocean only to be spread and lost in its broad bosom, has to be but bitted and curbed by dam or bund, and then so distributed as to fertilise the wide level plains of India, and to secure food and life for man and beast.

"A step further, and these running rills are deepened, extended, and converted into silent highways, to bear to foreign markets the redundant harvests of the tracts they traverse, and to bring back argosies laden with the wealth of other lands.

"This seemed simple and captivating, and in India, with its tropical sun, its certain (?) monsoons, and the prodigious rainfall along the ghâts and in some localities, nothing should be more sure.

"Others again have studied well our geography, have seen in the perennial supply, drawn by our northern rivers from the eternal snows of the Himalayas, an inexhaustible source of national wealth.

"Have these rivers been neglected? A glance at a map showing the districts of Northern India protected from drought by irrigation works will give a graphic answer.

"These protected areas form, it is true, but a small portion of the entire surface of the Continent, and of the balance left little can unfortunately be reached by this perennial supply; for the area within its influence ceases a little south of the Jumna, and from Rajmahal on the east away to the far south and west all the immense region of Central India bounded by the Vindhya falls to the Ganges, and is inaccessible to canal irrigation.

"This area, then, and that again to the south of the range I have named, may be said to be wholly dependent upon rainfall. And we are thus brought to see that, vast as is the country we have to deal with, mere magnitude is but one element of the problem to be solved.

"Much, very much, has already been done, especially in Southern India, and much more still can be, and will be, done in storing water; but the lessons which past and recent famines have taught us are that territories dependent on reservoirs, or 'tanks' as they are better known in India, offer, and at the best can offer, only an intermittent protection under the phase from which we are now emerging.

"Multiply these tanks as we may, they will stand us in but little help in such a famine as we have just passed through, due, as it has been, not to the failures of a single season, or of a single year. Deficiency of water in them originally, and ceaseless evaporation, are the influences which dry up one and dry up all when once the supply fails. And here, before I pass from this subject, I would desire to say that, although confidence in tanks cannot be assured, dependent as they are on the doubtful factor of local rains, yet in Madras, and especially in Mysore, where there is the enormous number of 37,600 tanks, ranging from the size of a village reservoir to a respectable sized lake of 14 square miles, much has been done in recent years to place them in a condition of safety, improving, as far as practicable, their capacity. But in this direction still more has to be done, and every effort will be made to insist on the continuance of systematic action in perfecting these works.

"To replenish these reservoirs from other than their natural catchments, as has been suggested, by means of channels led off from the larger rivers, would, in nearly all cases throughout the centre of the peninsula, where the scourge of famine has been heaviest, be either wholly impossible, or relatively so if financially considered.

"The tempting idea of storing up the flood wave where the streams first issue from their birthplace in the bosom of the Western Ghâts, unless in a very few exceptional positions, appears to be as deceptive as it is luring, judging from the experience of works of this character in the Bombay Presidency. No less than 27 works, more or

less of this type, estimated to cost over two millions sterling, have there been either completed or commenced as famine relief works, with, it is much to be feared, little prospect of paying for many years to come.

"The greatest advocate for schemes of this character has lately stated that 10,000 such reservoirs, with an unfailing supply, could thus be constructed, and instanced as a case in point one capable of storing 1,600,000,000 cubic yards of water, and of commanding 'nine tenths of the whole Peninsula of India,' which project, however, had in vain been pressed on the attention of Government.

"The officer whose duty it was to investigate this project, and who himself was at first most sanguine as to its success, informs me that, after several years' gauging the river which was to supply the reservoir, the available quantity of water turned out to be only one-fourth of that calculated above; and further, that, judging from the experience of three other works of a precisely similar character which were experimentally carried out in the same chain of hills, the fact was clearly demonstrated that such works could not, at least under existing conditions, be made to pay. The land is there, the water is there, but the inducements hitherto held out to the cultivators to embark in irrigation have met with the same disheartening response as in the case of the Madras Irrigation Company's Canal, which has hitherto disappointed in the most marked manner the expectation held out when it was projected. I have said it would not pay, but to my mind this is a matter of secondary importance, if only it would not fail; but as a security against famine, in times like those we have passed through, it would be a broken reed to lean on.

"In these situations, with *régur* or other unsuitable soils, rapidly sloping ground, and other drawbacks, the sparsely scattered, ignorant, and indigent cultivators, who perhaps have had no previous acquaintance with irrigation, fail to realise the advantage of incurring the outlay requisite for terracing their fields (often in such localities a serious charge), and it is thus to be feared that generations must be born and die before appreciable progress can be made towards the desired goal.

"Until the general conditions with which we have to deal alter materially, or schemes, hitherto tried without success, solve the difficulty of bringing water to the land without thereby imposing an unbearable burden on the country, we must accept as a fact that close on 550,000 square miles of the 740,000, comprising the great provinces of the empire (exclusive of the native states, Burma, &c.), cannot receive protection in any broad sense, and the vision of the 10,000 great reservoirs, conjured up by the enthusiastic projector, must be allowed to fade into dreamland.

"Another distinguished writer who has been quoted as a great authority, and whose opinion I admit is deserving of every respect, has stated that the great tracts of the Punjab might, at the cost of some 10 millions, be irrigated without the risk of pecuniary loss, and that this would be an insurance against drought.

"This may be true, but the question is not entirely connected with famine, and, considered from an irrigation point of view, the scheme has been already considered and abandoned, because the taxpayers of all India would have to find the money to execute it, and, when executed, there would be for generations no people to enjoy it, the district containing but a handful of inhabitants.

"The same writer, when criticising our past expenditure in the Tirhut famine, would also have that country irrigated. Press these principles to their logical sequence, and apply them to all the area of India, and we are brought face to face with an outlay of some 700,000,000% sterling!

"For a moment, however, admitting the dictum that 'there is not a district in India' that could not be more or less irrigated,' and assuming that only 100 millions of acres (say 156,000 square miles) of its whole surface could have this great blessing conferred on it, at the rate specified, namely, 2% per acre (the Bombay works give 23½ rupees per acre for protection, exclusive of indirect charges), a capital outlay of 200 millions will be needed, and an annual burden imposed on the people of eight millions sterling to cover the interest charged at 4 per cent.

"A proposition so startling might be allowed to answer itself, or, still better, by adopting an argument already used, that the taxation of India 'is almost without limit' 'so high that you cannot turn the screw a bit more,' be condemned by those who have brought it forward for grave consideration; but, as the best means of bringing home the very precarious nature of the revenue derivable from these protective works, the following sentence may be quoted from the Bengal revenue report for the past official year:—

"'In Midnapore the rainfall was 75 inches more in the opinion of the raiyats than 'is good even for rice. Hence canal water was at a discount. Those cultivators who

had executed leases at the commencement of the season regretted that they had done so, and the result seemed to justify their view of the case, as numerous careful experiments made by both revenue and engineer departments showed that the out-turn of the irrigated crops was in no degree superior to that of the unirrigated. This, following upon a previous year of good rainfall, has brought the Midnapore Canal into the greatest disfavour. There was a large falling off in the leased area, which has again been followed by a very much larger decrease in 1877-78.

"This has the greater significance when it is recollected who the author is, and his devotion and attachment to this branch of his profession, for no better irrigation engineer exists in India than Colonel Haig.

"Again he observes—

"The previous year having been a very favourable one for the unirrigated crops, the area leased for in 1876-77 fell from 55,995 acres to 32,681, but, as the season advanced, and its real character developed, the lessees repented of their engagements, and endeavoured to evade them by every possible means, first clamouring for a remission of the Government demand on the ground that the water was of no value to them (which, as it has turned out, was true), and, when this was refused, endeavouring to prove that water had not been properly supplied. The result has been disheartening for both Government and people. The revenue demands were enforced mostly by process of law, the people resisting them to the last. Very little of the demand for the year was recovered during the year, but the recoveries of arrears of former years were so vigorously carried on, that the actual collections exceeded those of any previous year except 1874-75.

"It is impossible to record this result with any satisfaction, as it seems certain that the arrears and the difficulty of enforcing payment were mainly, if not solely, due to the extreme poverty of the people. It is melancholy to read of 12,714 certificates having been issued for the recovery of the arrears, after abandoning all claims for less than one rupee, and making remissions to a large extent on other grounds; and this in a district where the irrigators have, as a rule, dealt fairly with Government, and have always been ready to pay when they had the means. One can hardly read the description of the revenue operations of the year, and, it may be added, of the previous years, without a wish that, if the state of the cultivators is such as it is described by the collector and his subordinates, irrigation, which, according to them, only enhances the difficulties of the people in ordinary years, had never been introduced at all. The deputy revenue superintendent remarks, 'The most potent cause about the gradual decline of the area leased is the indebtedness of the Midnapore raiyats. They are involved over head and ears; and it is a matter of infinite regret that their debts are increasing, as their connexion with the Government irrigation is growing older. Excepting during the year under review, the canal irrigation, as compared with the unirrigated crop, has always increased the yield from three to five maunds in the acre, but the Government irrigators are not in a position to benefit by it; all that they obtained from the fields go punctually to fill the coffers of the Mahájans, and they have finally to borrow money for the payment of the water rate. The increased yield of the crop, if reserved for the liquidation of the Government debt, is sure to prove more than enough for the purpose; but no notice is taken of it, and, when the irrigator is forced to pay for the irrigation of his land, he blames the canal for the increase of his debt.'

"Again, attachments and sales of the debtors' property were very frequent, and, where they had not the desired effect, the debtors were arrested for the realisation of the Government dues; and it is now a very common saying within the irrigable area that the major portion of the Government irrigators have been deprived of their plough cattle for the payment of the water rates. This is not very untrue, as the most valuable saleable property in the possession of the cultivators are the bullocks; and where we could catch hold of them no other moveable or immovable property belonging to them was attached or sold. The number of sale notices and warrants for the arrest of the debtors issued during the year under review was unusually large, yet from the well-known poverty of the Midnapore raiyats the result has not been as satisfactory as was anticipated.

"The part played by the Zamíndárs and Mahájans in the matter is shown in the following extracts from the deputy superintendent's reports:—

"The Zamíndárs, whose resistance to the spread of irrigation was hitherto passive, have now broken out in action, and many of them have openly prohibited their tenantry from using the canal water, on the penalty of incurring their severe displeasure. They have done this with the view of securing the realisation of their

own dues, and of preventing their raiyats from increasing their debts unnecessarily as they call it. The Mahájans also have been telling the raiyats not to resort to the canal any longer.

“For the collector's explanation of the causes of this state of things reference may be made to the revenue report of 1875-76, paragraph 36. It should be noted, in passing, that the year 1876-77, in which coercive measures on so large a scale were found necessary for the realisation of the Government revenues, was one of exceptionally high prices, and so far peculiarly favourable to the raiyats.”

“I have at length, and I fear to weariness, made these quotations; not that I desire to repeat them in the remotest degree to depreciate irrigation, but to show that the subject is surrounded with other difficulties, perhaps more obstructive and more powerful than those which the engineer can overcome or the financier deal with.

“What has been done already in the way of this artificial irrigation in parts of India, its cost and its results, may be rapidly sketched.

“Take first, my Lord, this great province of Bengal, with its 62,000,000 of population, and its 48,000,000 acres of land under food crops, and its 7,500,000 acres producing industrial staples of one kind or the other, and consider its three great irrigation schemes of Orissa, the Son, and Midnapore.

“These three projects protect generally some 1,231,000 acres, or 2·2 per cent. of the whole cultivated area of the province; they will, when completed, fully preserve that area from drought under the worst conditions yet known. In the last year water was taken from them for 360,000 acres, or only a little more than $\frac{1}{2}$ per cent. of the total lands under crops. To obtain this result we have already spent close on 4½ millions sterling, and a little under 4l. an acre will have been spent when the works have been completed.

“In the Punjab, exclusive of ancient works, nearly 3½ millions sterling have been spent in irrigating a little more than one million acres. The Sirhind project, now drawing to completion, promises well, but none of the other numerous schemes for further irrigation in the Punjab hold out fair prospects of immediate success.

“The same difficulty applies to the prosperous provinces of the North-west, where 5,500,000l. have been already expended in irrigating, according to the last returns, some 1,390,000 acres, and in prosecution of works which will eventually command a much wider area. This accomplished, the Ganges and the Jumna, the perennial rivers of these regions, will have given up possibly all the treasures they have drawn from the glaciers of their source.

“An author, one indeed of our own circle, has in an English periodical, alluding to our not having constructed the great Sarda Canal in Oudh, twitted us now in India for locking the stable door after the horse had been stolen, and has compared us to a father who has fee'd the doctor, but has forgotten to feed his own child.

“In answer to this, I shall only quote an extract from the Secretary of State's Despatch of the 9th April 1873, in which he says:—

“At a time when the finances of India are burdened with the pressure of so many and such important public works, it was obviously impolitic to persevere in a vast undertaking costing upwards of three millions of money, for the purpose of bringing water to the estates of landholders, who protested against the project as being unnecessary and a source of disease, while the opinions of the great majority of the local officers in Oudh, endorsed by every Chief Commissioner of the province, and shared in by the Lieutenant-Governor, were that the proposed canals were not wanted and would not be a financial success.”

“Let me pass on to Madras, where, as far as I can gather from the facts, some six millions sterling have been spent on irrigation schemes, or rather where this amount has been calculated without taking into account the dead stock value of the ancient native works. The results are certainly better there, for, whilst in ordinary years some five million acres receive the full benefits of irrigation, in the very worst years 1,600,000 acres are effectually protected; yet Madras, with its 32 millions of people, has even then but 7 per cent. of its agricultural industry secured from disaster in years of ordinary rainfall, and a much smaller area in years of drought.

“In Bombay, exclusive of Sind, with 19 million acres under cultivation, some 17,000 can now be irrigated, and, when the works which are now under construction are completed, costing at present estimates more than two millions, it is hoped, at all events, some eight to nine hundred thousand acres may be protected.

“I could go on giving dry facts, but in themselves they would, I fear, convey but a small idea to the mind of the vast work already accomplished in this country, far exceeding all that has been hitherto done as regards irrigation by collected Europe

with the great canals of Italy and the reservoirs and dams of Spain; and I should assuredly fail, were I to undertake the still greater task of practically bringing home the boundless nature of the effort which some would have us undertake, were we to rely on irrigation alone as an universal insurance against famine.

"It must also be distinctly borne in mind that the early irrigation engineers, who have left an imperishable name in connexion with the works of their creation, naturally, and indeed necessarily, selected those fields in their enterprise where all the elements of success lay in happiest combination. Where, in fact—

" ' Mill sites fill the country as thick as you can cram ' em,
An' desput rivers run about a' beggin folk to dam ' em.'

"One of these engineers, not the least distinguished, nor the least loud in his upbraidings at the shortcomings of those whom he has left behind in India for not following his good example, has quite forgotten that he has himself plucked the choicest plums off the tree and has left us only the kernels. Take for example the Kistna Delta irrigation alone. What have we there? a garden, it is admitted. But then, from the 31st December till the 1st July, it places under contribution, and claims exclusive right over, all the water from a catchment of not less than fifty times its own area.

"Having now, however, entered upon those tracts where these advantages no longer exist in such profusion, the least want of prudence may, by bringing about failures, injure the very cause which those who most earnestly desire the extension of irrigation, have most at heart.

"I think that I have, however, sufficiently shown that the administrators of this country, whether civil or professional, have ever valued the precious treasures of its rivers and storm waters.

"In short, as far as I can ascertain, we have spent some 24 millions sterling, and for this we have some 14,000 square miles actually irrigated with more or less certitude as regards permanency of supply. In other words, we have had to pay 1,700*l.* for each square mile, or something under 3*l.* an acre.

"Even if we had the water at command, and it were otherwise practicable to protect all the agricultural land of India, it would demand on this basis an outlay of at least some 300 millions sterling. This would build some 40,000 miles of railway, the fourth of which would give us an insurance, not against famines, but certainly against extreme scarcity, distress, and death from want.

"I said just now if practicable, because, in order to irrigate, we must have water, either annual from heaven or perennial from the snows of the Himalayas. The first we must regard, I fear, as precarious and uncertain; and as for the last, great as is the extent of the region over which the snow waters have their influence, and though possibly more may yet be garnered of their generous and perpetually recurring flow, we have already in the Punjáb and in the North-western Provinces, especially in the latter, appropriated so great a quantity of it that we fear we are approaching the limits of the supply. This last year we are told that the Ganges Canal was strained to its utmost, and at the tail of its distributaries the cultivators got but a scant supply; thus rendering more doubtful than before the wisdom of drawing off any further supply for the proposed Eastern Ganges Canal.

"It is in years like the past one that the great advantages of irrigation are so apparent. We have evidence that the undeveloped Son has already saved harvests, which must otherwise have perished, of more than a million sterling in value, whilst in the recent visitation in Madras the irrigated districts of the Godavari, Tanjore, and Trichinopoli have practically paid their land revenue in full. The Kistna district, where the irrigation project is not complete, has had remitted some 15 per cent.; but in the unirrigated districts remissions ranging from 30 to 70 per cent. have prevailed, whilst they have drawn from the irrigated districts food to the value of some 150,000*l.* exported by sea alone.

"I will not trouble the Council with any observations as to the embankments or inundation projects of parts of Bengal, of Burma, or of Sind. I only allude to them at all as significant of the fact that the rulers of this country, native as well as British, have in more ways than one, in the present as in the past, thought out the difficult problems that this struggle against nature has from time to time presented to them.

"So also I will not now say anything of the water-logging of land, of the raising of the spring level, of fever and other alleged evils, which, even if I admit as existing at all, I admit only to say that a remedy for them by drainage exists, though its cost, a heavy item with low-lying stiff clay soils, must be added to that of the original works.

"Let me, when mentioning drainage and the necessity for applying the severest examination to irrigation schemes, quote what one of the apostles of irrigation himself says when speaking of promoting indiscriminate and wide-spread irrigation: 'We should,' he says, 'make sure that we may not turn the irrigated districts into vast swamps, decimating the inhabitants with fever, and reducing, instead of increasing, the fertility of the soil.'

"And here I may remark that the nature of the soil has been a factor which has been too often wholly ignored, not only in schemes projected but since completed.

"I trust it will not for one moment be thought, because I have said what I have, that I am in the most remote degree opposed to, or the enemy of, irrigation; far from it. I believe I am, by the course I have taken in applying to every scheme and estimate that has come before me since I have taken my seat at this Council the closest inquiry and the most minute scrutiny as to the soundness of the one and the accuracy of the other, a truer friend to irrigation than the romantic enthusiasts who can only see that in water there is a cure for every ill, or the orator who, from the vantage ground of his great eloquence, makes easy the task, and would guide us through a maze of which it is reserved for statesmen yet unborn to find the clue. So, in saying this, I wish it to be understood that we do not purpose to neglect in the future irrigation works which give prospects of being not only beneficial in ordinary years but in years of scarcity. Many projects are now under inquiry of which I hope this may be said, though of some of them, the full cost of which would come to some 15,000,000% sterling, I find it already recorded that 'none of them are so urgently needed, in view to the prevention of famine, as to render it essential to extend financially the scale of operations in irrigation works.'

"I have already alluded to the projected through water communication from Karáchi to Calcutta, estimated to cost 5,000,000%. If this line of navigation, passing as it does across the peninsula through regions flooded by the great waters from the Himalayas, stretching to both seas, traversed by a net-work of rivers, flowing through a natural physical formation, fulfilling in short all the engineering conditions favourable to inland navigation, offer little or no prospect that, until years have elapsed, its practical influence as a means of communication will be felt, and that as a reproductive work there is but little hope for any return, how does the problem stand in other parts of Hindústán?

"Here and there, as around this city, local works of this nature, isolated and apart, have been a success, and many other navigation canal projects are likely, in this limited form, to be carried out from time to time, but any connected system of internal navigation seems a remote possibility.

"The irrigation and combined navigation systems of the Godávari and Kistna, projected to open up traffic from the eastern seaboard to the country of their sources and even to the Western Gháts, and ultimately to debouch at Karwar on the western coast, give little prospect or encouragement for us to anticipate from them the great benefits or facilities predicted by their projectors. It is not difficult to understand this, when the main link in the chain, that of the Madras Irrigation Company, is closed for six months of the year, because the source of its water supply is closed to it for that time! Even if this source were a constant one, the extension of the navigation to the coast is barred by physical difficulties of apparently an insurmountable character. I may be told all this can be remedied by storage tanks; I grant this might be possible, but, without counting their cost, or other difficulty of even a more serious nature, which, as a financial undertaking, will make the original scheme a still more hopeless affair than now, when the returns on the work do not come within a lakh per annum of the maintenance and establishment charges irrespective of interest on capital, recent experience tends to show that these aids will, in the hour of our direst need, fail us.

"Still I do not desire to condemn these schemes altogether, and I hope to see something practical done with them; possibly a remodelling of the works may ensure better results.

"The East Coast Canal, the most promising project of all, will demand, in order to secure its ultimate success, the solution of difficulties which will try the skill, genius, and daring of another Cautley, owing to its having to cross the drainage of the whole peninsula.

"I fear, then, that, as far as our knowledge goes, we cannot look forward to being able at any early period in India's future to see established a connected system of inland navigation. No doubt in districts favouring their construction we shall see navigable canals introduced and extended, but, judging from the past, their use and

'general adoption' must at best be necessarily a matter of slow growth, and in the centre of the peninsula, where they would be of the utmost service in case of the recurrence of any such famine as we have now passed through, it may be doubted whether any connected line of real utility could be constructed with advantage.

"Accepting the difficulties of the position as thus briefly portrayed, it is evident that the only practical course at the present moment is to recognise the mutual interdependence of the different parts of this vast country, and provide the means of distributing the surplus of one part to meet the deficiency of other parts.

"Happily we have not suffered simultaneously throughout India; the surplus produce of one part has been available for transport to other parts, and the enormous export of wheat which has been concurrent with the late calamity has shown that India has been able as a whole to produce more than it could consume.

"I do not lose sight of the fact that the people of Southern India are not a wheat-eating people, but, from the experience of the late famine and of that of 1874, it is evident that the calamity must be indeed frightful when India herself and the neighbouring rice-producing countries accessible by sea cannot feed any afflicted part.

"Even if on the whole empire the scourge of famine fell, and the food of its people had to be ocean-borne, how entirely dependent must the country still be on its internal communication!

"The point, then, at which I have arrived is that land communications have been our main stay in the recent famine, and must ever be.

"I do not purpose to enter again upon the vexed question of waterways against railways. Even could I bring myself to consider that the former were possible in places where the latter exist, I could not shut my eyes to the facts which are patent to every one.

"We have a system of railways, and we can say that they are now paying investments in the matter of direct returns. These railways have taught the people the advantages of rapid locomotion, and the merchant and trader know well without such teaching the value of the telegraph and of the railway in the matter of quick returns. The railway system must continue to expand and will expand till every inhabitant of India is within 50 to 100 miles of a line.

"But there is an argument for railways which has especial force in the time of famine. A grass famine may be said to be as bad as a grain famine. For, if the cattle on which the tilling of the ground is dependent cannot get fodder or even grass, the people are indeed in a bad way. Their only resource is to take time by the forelock, as thousands have done in Upper and Central India in the course of the last few months when scarcity threatened, and, as in the case of a water famine, emigrate to distant tracts in order to save their cattle.

"We have not neglected the extension of railways in connexion with the lessons taught us by the famines of the last few years. The Northern Bengal, the Tirhut, and the Irawadi Valley lines all received an impetus from famine, if they do not owe their early existence to it. The recent calamity has precipitated the construction of the Dhond-Manmad line into an almost accomplished fact, and has given a stimulus to at least two other lines in Southern India. Similarly the threatenings of scarcity, now happily almost passed away, which came upon us a few months ago, have given an impetus to the projected lines of Central India and Rájputána.

"The Government has not hesitated, notwithstanding the severe strain upon its resources, to devote during the present year upwards of a million sterling to railway lines, over and above what it had arranged to spend this time last year.

"And, whatever views may be held on the subject of railways, there is this justification for their extension, that since October 1876 they have carried into the heart of the afflicted districts upwards of one and a quarter million tons of food grains, representing the supply of $7\frac{1}{2}$ millions of people for 12 months at 1 lb. per head per diem. But, continuous as has been the inward current of food, the work of the railways has at times been far heavier than would be gathered from the even distribution of the quantity named over the entire period. Thus, in the three months ended December 1876, the Great Indian Peninsula Railway carried into the districts afflicted nearly 27,000 tons monthly, besides the larger proportion of the grain (44,000 tons in the three months) exported by sea to the Southern Marhatta ports of that presidency.

"In July and August of this year, when the intensity of the famine was at its maximum, that railway carried almost the same quantity.

"And during those two months the Madras railways distributed almost 200,000 tons of food.

"The effect of a prompt supply of such a quantity of food can only be estimated by a consideration of the direful effects of its non-supply, and I shall not be accused of exaggeration when I say that the railways have saved Southern India.

"The work done by a railway is only partly appreciated, unless the distance over which the goods are transported is considered.

"The rice exported from this port, Calcutta, was not carried over any great length of railway, but the wheat of Upper India, which was carried in large quantities to Poona and even as far as Bellary, and the grain of the Central Provinces, was carried over hundreds of miles, descending and ascending the Western Gháts. The waste of power over the gháts and the risk attending it have been eliminated for all time by the construction of the Dhond-Manmad line.

"But, vital as is the assistance which the railways have afforded, it must not be left out of sight that this aid was rendered with a concurrent unprecedented export trade, and; consequently, augmented general traffic.

"Thus, in the first half of the current year, on all the railways of India there were about $4\frac{1}{2}$ millions of tons of goods lifted, against $3\frac{1}{4}$ millions in the corresponding period of 1876.

"The pressure during the past year has been very great, and no doubt more or less loss and inconvenience has followed from this strain on the resources and means; but, considering the distances traversed, and the consequent impossibility of preventing detention of rolling stock, the working has, on the whole, been creditable to railway management in India.

"In considering the effect upon the English railway system of the construction of the Channel tunnel, the diversion of rolling stock to continental railways has been discussed as a matter which would call for very special arrangement. Our English railway managers would not, I apprehend, view without misgivings the concentration of a moiety of their waggon stock at Berlin, Vienna, or St. Petersburg; yet the diversion from the lines of Northern India of a couple of thousand waggons was a frequent occurrence during the recent pressure, and on one occasion the number of waggons thus absent was close upon 2,800.

"Perhaps a few words from me here, in further explanation of what has been already stated by my honourable colleague in reference to this railway traffic and the preference given in September to food destined to the famine-stricken district, may not be amiss.

"Very early in February of last year the power of the Great Indian Peninsula and Madras Railways to deal with the increase of traffic thrown upon them arrested our attention, but both companies then thought that nothing special was needed to facilitate their operation.

"But on the 5th March I find myself writing, when ordering engines from our State lines in Northern India to be placed on the metals of the Madras line, that 'the Great Indian Peninsula is now in need of engines to work its own lines,' so rapidly had grown the demands from various causes on the rolling stock of the lines. This growth of traffic led to many suggestions, all pointing to the direct interference and intervention of the State with the management of the lines and the direction of trade. On this I find I again wrote, pointing out that more engine power was all that was needed, adding—

"'From the north and west the lines in correspondence are working as one system, and their capacity is only limited by their united haulage power, which no new organisation or fresh administration can possibly improve; whilst, on the contrary, the introduction of foreign interference will inevitably tend to irritation and friction; and misunderstanding, confusion, and chaos will take the place of hearty co-operation and management which at present exist between the managers, who are mutually aware of their individual difficulties, and that these arise from physical and material causes requiring only time for their removal.

"'At this moment throughout the whole of our railway system, a number of other circumstances, and not the famine alone, has caused a sudden expansion of traffic. All railways are taxed to their utmost, and even on the far Indus Valley, where, by the opening for goods traffic of a portion only of the line last January, the flotilla on the river was released for more concentrated traffic, an unexpectedly large trade has sprung up, and the wheat of Sind and of the Northern Punjab is seeking a market, not only in the Deccan, but even in Europe itself. All this has to be watched and nurtured, and any rough or rude remedy, dictated by the momentary necessity for removing a block on a line traversing a district of Bombay or Madras, might irreparably throw back the growth of this trade and industry.'

“Again—

“‘I hope I have shown in this note that no exceptional administrative measures are really needed to meet the present pressure, which I am confident can be satisfactorily overcome without them.’

“This I wrote in March of last year.

“To do more than the railways were already doing could only be effected by two measures—one the doubling of the lines, the other the procuring of additional engines.

“The first was out of the question, even if it could have been done in time to be of use in such a crisis; the second, owing to the exceptional gauge adopted in this country, was really almost as impossible as the first, since we have in Europe no reserve from other systems to fall back upon. The only alternatives left, then, were to contribute stock from the northern lines, although on them, too, the pressure had fallen; and to give preference to food consigned to Southern India. Still, reluctant to press, till forced by inexorable necessity, either of these courses on the railway administration, it was not till the calamity in Southern India was assuming yet darker features, that with your approval, my Lord, I wrote confidentially to the several railway agents on the 27th July a letter, which, with the permission of the Council, I will now read—

“‘Dear Sir,—The situation in Southern India appears to be graver now than ever. It is causing the Viceroy to consider with anxious solicitude the means to be adopted in order to mitigate the terrible distress which seems imminent from want of food in Mysore and Madras, and it points to our being forced to take exceptional measures for facilitating the transport of grain into and within those countries.

“‘This, I fear, will have to be done at the sacrifice of certain trade interests, for in face of such a crisis preference must be given to food grain traffic.

“‘The haulage power and the stock on the Madras, and very possibly on the Great Indian Peninsula line, will have to be increased by contributions from other lines; and Lord Lytton feels assured that he may reckon on the co-operation of other companies, should such a course be forced upon us.

“‘I trust that it may not come to this. But I invite your aid and co-operation to help us, and in the meantime I write this to ask you to consider what you can do to regulate and increase famine traffic, so as to give it a special service and preference over all other consignments on your lines, and to see what powerful goods engines (the gradients of both the Madras and Great Indian Peninsula Railways are bad) and covered or high-sided stock you can supply to the Madras line, in order to distribute what is sent from the north or by water. The latest information shows that the Madras Railway must have 16 powerful goods engines and 400 waggons without loss of time.

“‘I write this, therefore, to prepare you for what is probable. Please consider this in the meantime as very secret and confidential, but, in case the worst comes to the worst, I should like to know beforehand what are your views on the course suggested.’

“I need not dwell upon the correspondence and negotiations that followed the issue of this circular.

“The agents of the northern railways did as much as was in their power to do, but fortunately it was not necessary to insist on preference on these lines, though the Government of Bombay were compelled at the end of July or beginning of August to urge on the representative of the Great Indian Peninsula to give food consigned to the famine districts preference over other goods.

“Hardly had this been done, when the correspondents from the Calcutta press in Madras telegraphed to their principals in this city, ‘people are asking, should not the railways now carry food only?’

“I give these facts to show that this subject was fully considered, and that we did not lightly, nor without very great reluctance, urge on the companies those exceptional steps, a necessity as imperative, if not more so, than the necessity of war.

“The same distinguished statesman who has advocated irrigation as the treatment for famine has asserted that we have abandoned this remedy in favour of railways, the agents that support our military policy.

“That in the alignment of these great highways the part they might play in the defence of the empire in time of war was not overlooked by the great Proconsul who first gave them to India is incontrovertible; but, if they have not yet helped to deliver us in time of war, they most certainly have in time of famine, nor have they failed to deliver us from some of the accidents of war. After the tempest of the great mutiny

had calmed down, those who were then responsible for the future peace of India decided that a British force of a certain strength should always be in the land. The extension and part completion of the railway system has permitted of a reduction in recent years of this force, which at the very least falls not far short of, if it does not exceed, two millions sterling a year. Thus, besides having saved India some thirty millions already, it has saved to England a corresponding drain on her people.

"Nor am I, I believe, over-sanguine, when I express the idea that, judging from what has been the development of traffic on the essentially military lines of Northern India, their designers will be agreeably disappointed at finding that as commercial lines they will not be such a drag on the finances as has been anticipated, whilst of this I am sure, that they will be found to be the most powerful pacificator of our troubled frontiers.

"I have purposely avoided making any observations as to what should guide us in our administration, either civil or professional, when famine with all its suite of evils is really in the land; and I can scarcely be anticipating any final conclusion, if I express the opinion that, in proposing works for the exigencies of famine, they must be chiefly of a character suitable for unskilled labour, requiring little skilled supervision, and able to be executed by concentrated gangs whose wages can be paid with the least opportunities for peculation. Far be it from me to say that we should have no work for the artisan or the skilled labourer. This class suffers just as much as, if not more than, the mere cooly or the simple agriculturist. But, as the bulk of the labour is ignorant, the bulk of the work must be simple, and, as the skilled supervision is limited (unless you divert it, and then you create mischief, from those works which must go on in any case), there exists still stronger reason that the work should be such as earth-work, collecting and breaking stone, a kind of work easy to supervise and to pay for.

"The various classes of works suitable for relief objects, taken in their order are tanks; road, river, and railway embankments; irrigation channels, canals and drainage works; and I agree with those who think the last three are the last to be undertaken, because, if these are not thoroughly well designed, they are the cause of very serious and absolute mischief. I would dwell upon this point, as I cannot too strongly reiterate the intention and, I believe, the instructions of the Supreme Government, that, in view to the efficacious working of this policy, it is primarily essential to have in reserve and ready the full and clear engineering details of such works, elaborated in quieter times by the professional officer in concert with the local civil authorities.

"To this precaution I attach the highest value, because I wish most distinctly and emphatically to disclaim, both on my own part and that of the officers of the Public Works Department generally, that we regard famine as the opportunity for advancing our schemes or airing our pet projects. The initiative in these matters should be taken by the civil administrators, who are primarily responsible for the good government and material prosperity of the peoples committed to their charge.

"In saying this, however, I do claim for the public works officers of the State that to them should very early in a campaign against famine be entrusted the agencies to fight it, and that operations be not postponed till to scarcity and lack of means are added disease and emaciation among the people, to say nothing of the demoralisation inseparable from the pauper's dole, or the existence prolonged only by the relief ration.

"This is the more essential in this country, where it is not from a total absence of food within the country itself that men perish, but from the absence of means of acquiring it. They are deprived for the time of winning their bread by their usual callings, because we have not in this country, from its social relations and the functions Government has taken on itself, men of enterprise or philanthropy, as we have in our own western home, who see in the failure of a harvest, or of an industry, openings for giving to the labour thus set free employment in works of utility, of improvement, or even of luxury.

"In advocating this as the true course to follow, I am conscious of the fact that it means a larger first outlay; but it also means a very considerable decrease in the unproductive expenditure which ordinary famine relief means.

"In what I have said, I have rather reviewed the past, and dealt with what has been done already in the way of those material improvements which may to some extent have counteracted the full effect of failure of harvests, from time to time, in parts of this great empire.

"I have dealt with the accomplished facts of the past, and avoided profuse promises as to the future; for I believe the narrative of the past will carry to men's minds the conviction that those to whom has been hitherto entrusted the guidance of affairs in

this country have not failed or neglected their duty in these respects ; and this will be a sufficient earnest that this path of duty is not now likely to be abandoned."

The motion was put and agreed to.

ADDITIONAL RATES (NORTH-WESTERN PROVINCES) BILL.

The Honourable Sir John Strachey also moved that the Bill for the levy of additional rates on land in the North-western Provinces be referred to a Select Committee, consisting of the Honourable Messrs. Stokes, Cockerell, and Colvin, the Honourable Nawáb Faiz Ali Khán, and the Honourable Mr. Morgan, and the Mover.

The Honourable Mr. Morgan said that, when the honourable member in charge of the finances made his statement with reference to the additional taxation which would be necessary, as Mr. Morgan understood him; he stated that it would be necessary to provide about 1,000,000*l.* sterling for what he called the famine fund, and 500,000*l.* as what might be termed a working balance in the finances. The sum which he proposed to levy by the imposition of the taxes, Bills regarding which were now before the Council, was, Mr. Morgan understood, about 800,000*l.* But it was not stated at the time how much was expected to be received from the tax on trades and dealings, and how much from the land tax. At the time these Bills were brought forward, as he understood the honourable member to say, it was not intended that they should be passed so early as it was now actually proposed that they should be. But, on the suggestion of his Honour the Lieutenant-Governor, the passing into law of the Licensing Bill, which was the only Bill which applied to Bengal, had been accelerated, and, as he believed, very properly so. But of course the arguments of the Lieutenant-Governor with reference to that Bill which concerned new taxation were so cogent that there was no reason for him to raise any objection to its acceleration. But it appeared to him that the same argument did not apply to the levy upon the people of an increased tax upon land in the North-western Provinces. There it was well understood what the existing rate was, and therefore the levy of an additional rate of 2 per cent., which he understood was agreed upon, would be raised without any difficulty at all. It was not a question of the supervision of revenue officers, inasmuch as all the data were before them. He would therefore suggest that the consideration of the Bills for the levy of an additional rate upon land might be postponed, without any detriment to the raising of the rates in due course. And it appeared to him that this might be done with greater reason, inasmuch as the necessity for the raising of further money by taxation must depend, to a large extent, on the equilibrium which was to be established in the budget, which was not at present before the Council. Of course he made this suggestion with due deference to his Lordship, but he would suggest that the consideration of these Bills should be postponed until the Council was in possession of further details with reference to the budget, and with reference also to the amount which was likely to be raised under the Bill which had already been referred to a Select Committee, in respect to the licensing of trades and dealings in the North-western Provinces.

The Honourable Sir John Strachey said : " I do not know whether the honourable member who has just spoken has quite appreciated all that I intended to say at the beginning of the present sitting of the Council. All I am proposing at the present time is that these Bills should be referred to a Select Committee, not that the Council should take any action upon them in the way of passing them into law. I intended to say that this was all I intended to propose at the present moment, and that, after the report of the Select Committee had been presented, the Bills should go in the ordinary course. I should like to say a very few words only with reference to the remarks of the honourable member regarding the possibility or propriety of postponing the consideration of the Bills affecting the proposed additional taxation upon land, while the Bill for imposing a license tax, he thought, might be gone on with at once. But I would point out that if we do not proceed with these Bills *pari passu*, the whole basis of the scheme which I laid before the Council three weeks ago will really be disturbed, for it is an essential part of that scheme that these new taxes should be imposed equally, as far as one can do these things equally, both upon the commercial and agricultural classes. It will disturb the whole of that scheme if we legislate for the commercial classes only and leave the agricultural classes out. Also, as I pointed out, the necessity for imposing these rates in Northern India is justified on this ground, that we have already imposed this rate in Bengal, and, unless we impose similar rates in other parts of India, there is really no justification for the measure already taken in

Bengal; and it is desirable that we should apply the same general system, so far as one can do so equitably, in one province as in another. I quite admit that, if there were special reasons, as there are in the case of Madras and Bombay, for not imposing additional rates on land in Northern India, that would be a very good ground for acting differently. But I endeavoured to show the Council that there was certainly nothing in the condition of the agricultural classes in the North-western Provinces to justify any exceptional treatment. I think that it is quite essential that, if our measures for taxing the commercial classes have to be gone on with, our measures for taxing the agricultural classes must be gone on with at the same time. For, if the measure imposing taxation on land should not be accepted, then a reconsideration of the whole subject of the new taxation will in my opinion become imperative, and we shall not have provided that insurance against famine which, in the opinion of the Government, it is necessary to provide.

"I will merely add now, with reference to the other remarks made by the honourable member, and also to those of the Honourable Mahārāja Jotíndrá Mohán Tagore, that I shall endeavour at some future opportunity to give as full information as may be in my power upon every point to which reference has been made."

The motion was put and agreed to.

ADDITIONAL RATES (OUDH) BILL.

The Honourable Sir John Strachey also moved that the Bill for the levy of additional rates on land in Oudh be referred to a Select Committee, consisting of the Honourable Messrs. Stokes, Cockerell, and Colvin, the Honourable Nawáb Faiz Alí Khán, and the Honourable Mr. Morgan, and the Mover.

The motion was put and agreed to.

ADDITIONAL RATES (PUNJÁB) BILL.

The Honourable Sir John Strachey also moved that the Bill for the levy of additional rates on land in the Punjáb be referred to a Select Committee, consisting of the Honourable Messrs. Stokes, Cockerell, and Colvin, the Honourable Nawáb Faiz Alí Khán, and the Honourable Mr. Morgan, and the Mover.

The motion was put and agreed to.

ADDITIONAL RATES (CENTRAL PROVINCES) BILL.

The Honourable Sir John Strachey then moved that the Bill for the levy of additional rates on land in the Central Provinces be referred to a Select Committee, consisting of the Honourable Messrs. Stokes, Cockerell, and Colvin, the Honourable Nawáb Faiz Alí Khán, and the Honourable Mr. Morgan, and the Mover.

The motion was put and agreed to.

No. 133.

LETTER from the GOVERNMENT OF INDIA, February 15, 1878, No. 78 (Financial).

MY LORD MARQUIS,

WE have now the honour to submit copies of the Acts passed by, together with the proceedings of, the Legislative Council on the 9th current, for giving effect to our policy of applying every year the sum of $1\frac{1}{2}$ millions sterling as an insurance against famine. In our Despatch No. 7, dated the 4th January, we explained in detail the methods by which the money was to be raised. Page 184.

2. The changes made in the Taxation Bills, since they were forwarded to your Lordship in the beginning of January, have been comparatively unimportant. The general scope of the License Tax Bill is unaltered; but the maximum fee has been raised from Rs. 200 to Rs. 500. In accordance with the intention always held by us, no person is to pay a license fee whose yearly income is estimated at less than Rs. 100. It has, however, for the reasons explained by Sir John Strachey in his speech, not been thought desirable to prescribe formally in the Act any minimum of this kind. It may seem inconsistent to prescribe 2 per cent. on annual earnings as the limit of taxation under section 12, to have Rs. 100 as the taxable minimum under section 26, and then to provide a one-rupee grade of tax in the schedule. As Sir John Strachey has shown, the object of this provision is to give relief to the poorer classes of persons liable to the tax. Practically, persons whose earnings are about Rs. 100 to Rs. 150

will be called upon to pay the lowest grade of fee (one rupee) only; and detailed inquiries into incomes will never be made, unless an appellant specially courts such inquiry under section 13 of the Act.

3. The Acts for imposing rates on the land in the North-western Provinces, the Punjab, and Oudh, merely provide for levying the additional 1 per cent. on the annual value of the land, which we originally proposed to take for the purposes of our famine insurance fund. But in each case it has, on the recommendation of the local authorities, been found convenient to repeal previous rating Acts, and to enact the old and new rates in one and the same Act. In our Despatch No. 14, dated 27th September 1877, we stated to your Lordship that consolidation of this kind might probably be found convenient. The substantive law in regard to the old rates remains precisely as before. It was the wish of the Government of the North-western Provinces and Oudh to take this opportunity of amending the existing law, but, after full consideration, we deemed it right to leave the substantive law as to the old rates unaltered, and to confine our present legislation strictly to the purpose for which it was avowedly undertaken. The only exception to this decision was in the case of the province of Oudh. The local government recommended, and we have approved, the extension to Oudh of that part of the North-western Provinces law which permits the local government to appropriate a sum, not exceeding one-tenth of the old local rates, for the purpose of meeting charges on account of railways and canals of general provincial utility. This provision, as embodied in Act VII. of 1877, has already been approved by your Lordship so far as the North-western Provinces are concerned. As the circumstances of Oudh are similar to those of the neighbouring provinces, there seemed no objection to applying the same principle to both cases.

4. In Sir John Strachey's first speech will be found a statement of the way in which we propose to apply the proceeds of the taxation now imposed for the purposes of the famine insurance fund. That statement, which expresses the views of our Government on the subject, and to which we beg to ask your Lordship's attention, is merely an amplification of the policy laid before your Lordship in the concluding paragraphs of our Despatch of the 4th January.

5. The best estimates which we can up to the present time form of the yield of the new taxes imposed for famine purposes, and of the arrangements previously reported to your Lordship, are as follows:—

License Tax, Imperial share—

	Lakhs.	Lakhs.
Bengal	-	30
North-western Provinces and Oudh	-	8½*
Punjab	-	7¾
Bombay	-	16
Madras	-	12
Central Provinces (share of Pandhari tax)	-	1¼

Total - - - - - 75½

Rates on land—

North-western Provinces and Oudh	-	11¼
Punjab	-	4¼
Central Provinces	-	1¼
Total	-	16¾

Relief to Imperial Revenue by extension of the localisation of the finances—

Gained by arrangements which involved no additional taxation	-	
Gained in consequence of measures taken in March 1877 for localising the finances of certain canals and local railways in Bengal and the North-western Provinces, involving additional taxation of about 33 lakhs	-	70
Total	-	70

GRAND TOTAL - - - - - 162¼

This total exceeds by 12¼ lakhs the 1½ millions of which we held ourselves bound to provide on account of insurance against famine. We must, however, be prepared to

* Besides 5 lakhs levied under Act VIII. of 1877.

find that the actual receipts under the new taxes may fall short of the approximate estimates now presented. In the first year the receipts will certainly be short, for, in consequence of the failure of the autumn crop of 1877 in Northern India, we have been obliged to postpone* the collection of the extra rate in the North-western Provinces. Under all the circumstances, we do not consider the margin of 12½ lakhs too large. Towards the attainment of a normal surplus of half a million we have, as yet, made only a temporary provision of 30 lakhs, which we estimate to be the net yield of the recent modification of the salt duties.

6. With reference to the remarks in paragraph 20 of our Despatch of the 4th January, regarding fresh taxation in Assam and Burma, we have decided not to demand from either of these provinces, at present, any contribution to the famine insurance fund. Both Burma and Assam have many growing needs for which we are unable to make sufficient provision by reason of the condition of our finances. We have accordingly informed the Chief Commissioners of British Burma and of Assam that, if they see their way to fresh taxation on the basis of the arrangements now made in older provinces, they will be allowed to keep, for the present, the proceeds of such taxation for the development of the provinces under their charge.

We have, &c.

LYTTON.

E. C. BAYLEY.

A. J. ARBUTHNOT.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

Enclosure 1 in No. 133.

REPORT of the DEBATE in the LEGISLATIVE COUNCIL of the GOVERNMENT OF INDIA on the 9th February 1878.

THE Honourable Sir John Strachey moved that the report of the Select Committee on the Bill for the licensing of trades and dealings in the Punjab, the North-western Provinces, and Oudh, be taken into consideration. He said:—"My Lord,—In asking the Council to take this report into consideration with the object of passing the Bill into law, I shall have little to say regarding the measure itself. The reasons for which new taxation is required, and the principles on which the actual proposals of the Government are based, have been so fully explained already that it is quite unnecessary that I should enter into them again. That further taxation is unavoidable to enable the Government to meet, as one of the ordinary charges of the State, the obligation of preserving the lives of the people in time of famine, is admitted, I think I may say, by all reasonable men. The form which this fresh taxation should take is, on the other hand, a subject on which it is inevitable that differences of opinion should exist. I have stated on behalf of the Government the reasons which have led us to the conclusion that the trading and agricultural classes are those on which the obligation of contributing for the prevention and relief of famine more especially rests. These are the classes on which as a whole, and on which almost alone, the pressure of actual famine falls. They ought, therefore, to contribute for their own protection. In regard to the commercial and trading classes, there is also this strongest of all justifications for taxing them, that, excepting always that comparatively very small section of them which is composed of Europeans, they now pay almost nothing towards the expenses of the State. There is, moreover, this further reason, that, although the trading and agricultural classes are the first to suffer when famine occurs within the limits of their own provinces, they benefit immensely, taking them as a whole, by the occurrence of famine in other parts of the empire. The misfortune of their neighbours brings to them wealth and prosperity.

"On the other hand, the professional classes and those who depend on fixed incomes for their support, although they suffer from the high prices caused by famine, are seldom the recipients of actual relief from the State; under no circumstances do they derive any advantage from famine when it occurs, and they have no power of passing on to others the burdens placed on themselves. The small officials and servants receiving wages are in this country very numerous, and there is certainly no class on which it would be less equitable to impose taxation for such a purpose as this.

* The Lieutenant-Governor of the Punjab, on our consulting him, reported that a similar postponement was not required by the circumstances of his province.

"I quite sympathise with the feeling which makes so many people regret and protest against the apparent injustice of exempting from further taxation the happy possessors of large incomes derived from professional, or official, or other sources. But I will not enter into this question. Its real meaning is, in my opinion, simply this: Would not an income tax upon all classes of persons and property have been better than the measures which have been actually proposed by the Government? I leave it to others to answer the question. For my own part, I have already said that I was always a supporter of the income tax while it lasted, but I do not think that its reimposition at the present time would be politic or just. Under such circumstances, moreover, as the present, Government has to consider what is practicable, and, although I do not mean to say that it was really impracticable to restore the income tax, I freely confess that I should have been sorry to have had to propose it until the public was convinced that no other means existed of obtaining the additional revenue which was required. I said before, and I now repeat, that in my opinion we have to choose between measures such as those which are now before the Council and an income tax. There is no other alternative that I, at least, can see.

"The objections to a license tax, like that described in the present Bill, are obvious. The tax necessarily falls comparatively lightly on those who can best afford to pay it. Here again, I say, if you refuse this condition, you can only remove it by subjecting the commercial classes to an income tax. The objection that we were proposing to tax the rich too little has been to a certain extent removed by the change which the Select Committee has made in the Bill, and which I hope the Council will accept, by which the maximum fee chargeable will be 500 instead of 200 rupees. The change will give us very little more money, and it involves no principle; for whatever sum may be fixed as the maximum fee, must be fixed in a purely arbitrary manner. If, however, raising the amount to 500 rupees makes the tax seem more equitable, this is itself an advantage. As to the objection which has been raised in some quarters, that this tax will fall mainly on the poor, I content myself with simply denying the fact. It will touch no person whose net earnings are less than 100 rupees a year; and, if anybody asserts that in the provinces to which this Bill refers any man is poor who possesses an income of 100 rupees a year, he is ignorant of the facts. Such a man is not poor; he is a man far removed above poverty, and well able to pay his contribution towards insuring the country against famine. To say that our new taxation will fall upon the poor is either an error or a calumny.

"As I shall show again presently, exactly the same thing is true regarding the additional rates which we propose to levy on the land. My old friend, Sir George Campbell, told the British public the other day that his soul was 'filled with anguish' when he thought of the iniquity that we were committing in imposing taxes on the poorest classes for the benefit and at the instigation of the rich. Now I am not going to make a counter-attack upon Sir George Campbell. If I could ever be inclined to do so, it would not be in this Council room in Calcutta, in the great province which owes to him, in my judgment, a lasting debt of gratitude for the admirable, but often far from pleasant, work which he performed as its Governor. But Sir George Campbell, with all his great qualities, has never been distinguished by his reticence.

"I remember on one occasion telling him myself, when he had issued a certain wonderful circular, that, if his secretary had done his duty, the manuscript, instead of being sent off straight to the press, would have been accidentally mislaid for a fortnight. It is a pity that Sir George Campbell's letter to the 'Times' did not suffer a similar fate; he might then have learnt that he had been knocking down the creations of his own fancy, and he might have written, as I hope his sense of justice will make him do now, an eloquent tribute of admiration to our measures.

"We are doing none of those things with which Sir George Campbell has charged us. By the Bills now before the Council we are imposing no fresh taxation whatever on the poor; and as to the salt tax, in regard to which our imaginary proceedings have made Sir George Campbell so especially unhappy, I will say now, what I have said before, that we have taken the greatest steps ever yet taken in India for reducing the pressure of this tax upon the poor, and giving to the mass of the people the largest possible supply of salt at the cheapest possible rate. In Northern and Central India, not only are we imposing no fresh burdens on the poorest classes, but we have already benefited these classes by the removal of taxation on salt to the extent of 200,000%.

"There is another fact bearing on the License Bill to which I must call attention. It is, as I have said, proposed that no person shall be liable to the tax whose annual earnings are less than 100 rupees. This does not appear on the face of the Bill, and the reason for this is that, as the measure will extend to several provinces, and will

have to be applied under conditions which vary considerably in different districts, it is not certain that the same minimum limit of taxable income will everywhere be appropriate. For, independently of other considerations, the purchasing power of money varies greatly. Under the existing license tax in the North-western Provinces, no one is taxed whose presumed income is less than 200 rupees, and it may be found desirable to make no change in this respect. We desire to leave a wide discretion to the local governments, which are in the best position for forming sound opinions on such a subject. While, however, the Government of India allows this discretion to be exercised for the relief of the taxpayers, it gives no such authority to extend the incidence of the tax downwards. Under no circumstances will the tax touch anyone whose annual earnings are less than 100 rupees. Nor is this all. It will be observed that the lowest fee payable under the Bill is one rupee. The Bill declares that any person may claim to have the fee charged against him reduced or remitted altogether, if he can show that it falls at a higher rate than 2 per cent. on his annual earnings. Applying this rate of 2 per cent. to an income of 100 rupees, the minimum fee would be two rupees, and not one rupee. The meaning of this is that the Government desires to leave to the local authorities entrusted with the administration of the tax a discretion to reduce the demand when they are of opinion that it would fall heavily. Thus it will often happen in practice that the poorest classes affected by the measure will pay at the rate of 1 per cent. only, instead of 2 per cent., the rate charged on the higher incomes.

"I need not say anything further about the License Bill. I think it will be convenient if I ask your Excellency and the Council to allow me to pass now to the other taxation Bills under which additional rates will be imposed on the land in Northern India. Those Bills are so closely connected with the Bill actually before us that they can hardly be considered separately, and I hope that the Council will agree with me in thinking it desirable that the discussion of the whole of our measures should take place while the present Bill is before us. My reason for saying this is that it is, as I have already fully explained, an essential part of the policy of the Government that this new taxation should fall both on the commercial and agricultural classes, and that so far as may be practicable each class shall bear an approximately equal burden. This principle has been to a great extent carried out already. Additional rates similar in character to those which we are now proposing to levy in Northern India have already been imposed in Bengal, and the Bill taxing the commercial classes of that province will, I presume, soon become law. We desire to apply the same principle to the other provinces, the only exception being that, for reasons which have been stated at length to the Council, it is not thought proper to impose at the present time fresh taxation on the agricultural classes in Madras and Bombay.

"When those Bills were introduced, I said that the justice of imposing new burdens on the agricultural classes would be more questioned than that of imposing them on the traders, and referred prominently to the objections which had been and would continue to be urged against fresh taxation of this kind, on the ground that it infringed, or would be thought to infringe, the conditions of the settlement of the land revenue. I declined, and must still decline, to discuss the question of the right of the State to impose such taxes; for, as I have already said, it is impossible that any Indian question could be named which has been more completely argued out during a long course of years than this, and no question could be named which has been more distinctly closed by positive decisions of Her Majesty's Government. I have now a right to assume (I am now quoting the words of the Secretary of State) that—

" 'the levying of such rates upon the holders of land, irrespective of the amount of their land assessment, involves no breach of faith upon the part of the Government, whether as regards holders of permanent or temporary tenures.'

"I feel that I may also, without impropriety, decline to discuss the question whether, apart from the right to impose such taxes, the condition of the classes on whom in Northern India the actual burden will fall is such that they can pay without hardship the amount which it is now proposed to levy. That amount is 1 per cent. on the rental of the land. I do not, I hope, undervalue the opinions of those officers, some of them men who are entitled to be listened to with high respect, who think it inexpedient to impose any fresh taxation on the land. But this I assert, that it is impossible for anyone who knows anything of the real condition of the proprietors of land in any part of Northern India to say that these rates will be more than an insignificant burden. It must be remembered that they, in common with the existing local rates to which they will be an addition, will be payable by the landlord, and will not fall on the poorer classes interested in the land. I do not deny that it will very frequently

happen that the landlord will do everything in his power, and will often succeed in making his tenants pay the amount charged against him. But the same would be true of every other tax which could be imposed upon him, and this objection has no special force in the present instance. Neither can it be disputed that within the limits authorised by law, and justified by custom, rents will in the long run inevitably be raised by landlords, whether they are taxed or not, as they think consistent with their own interests, so long as the tenants will pay them. Tenants, however, are rapidly learning to protect their own rights, and it is not so easy as it once was to impose upon them demands unauthorised by law.

"Before leaving this part of the subject, I may add that the Government of India has no intention of actually levying these additional rates in the North-western Provinces until the country has completely recovered from the serious loss which it suffered from the almost total failure of the last summer crops. The Lieutenant-Governor has been informed that no additional demand will be made until the next agricultural year. The Government of the Punjab has decided that no similar reasons exist for deferring the collection of the new rate in that province.

"There is one objection to the imposition of new rates on the land, which I fully admit is a real one. It is an objection which it has always been clear we should have to meet, and it received the careful consideration of the Government before these measures were proposed. I cannot state that objection more clearly than by quoting the following passage from the letter from the Government of the Punjab which has been laid before the Council :—

" 'The Lieutenant-Governor would duly record, with reference to the Bill for enhancement of the local cess, that he believes that, although it will give rise to no active discontent or expression of dissatisfaction, it will still be regarded by the people with some dissatisfaction, as involving a further departure than that taken in the original Local Cess Act, from the principle of the fixity of the land revenue demand. This feeling of dissatisfaction will not be the less strong from the fact that the money raised under the new Act will possibly be spent out of the Punjab. To a trained intelligence it is easy to distinguish the proposed impost, which is no more than a tax upon rent, from an enhancement of the Government share of the produce of the land. But his Honour doubts whether it is possible to persuade uneducated zamindars, the more especially that the revenue is no longer taken in kind, but in cash, that the demand is not an increase on the amount of land revenue which has in each district been fixed for the term of settlement. The Lieutenant-Governor does not, however, imagine that there will be any difficulty in collecting the enhanced tax, or that after a short time the irritation caused will not pass away.'

"Although we have not received from the other provinces objections similar to these which have come to us from the Punjab, there cannot be the least doubt that they will be felt as much in one province as in another. They were urged in 1871 in the North-western Provinces, when new local rates were imposed in the permanently settled districts; they were urged at the same time in Oudh; they were urged in the Punjab; they will everywhere be urged now, and they will be urged again hereafter, if it should ever become necessary to place additional taxation on the proprietors of the land. Exactly the same objection was raised to the imposition of the income tax on profits derived from land. The Government has, for years past, done its best to make people understand the essential difference between the land revenue and taxes of this kind; and in 1871, when the laws were passed under which the local rates in Northern India are imposed, the legislature enacted, in the plainest possible language, that these rates 'shall be paid by the landlord independently of, and in addition to, any land revenue assessed on the estate.'

"In spite, however, of all that has been done, the old ignorance continues. Nor can we expect that it will soon disappear among the people, when we find that economical heresies, such as those to which I have alluded, still form part of the faith of many of our own officers. Objections to taxation of this sort, based on opinions which have their sole origin in the ignorance of the people, cannot be answered, although this does not make them less real. Among all the difficulties and dangers with which we have to contend in India, those to which we are exposed by the ignorance of the people are incomparably the most serious. It is, unhappily, true that our most enlightened and useful measures are, as a general rule, precisely those which are the least popular. If any man supposes that we earn the present gratitude of the people of India, by abolishing satí and infanticide, by female education, by constructing railways and canals, by making the towns and country healthy, or even by improving the laws

which add to the security of life and property, that man is greatly mistaken; but this is no reason why we are not to persevere with our work. So I say of these Bills. I do not pretend that the people who have to pay these taxes will like them; but it is, in the opinion of the Government, necessary that they should be imposed, and we trust the local governments when they tell us that, while they can suggest no better form of taxation, they are satisfied that the measures now proposed will lead to no serious dissatisfaction which it might be politically unwise to face, and that such dissatisfaction as may arise will soon pass away, as it has passed away in similar cases before.

"In concluding the remarks that I desire to make on the Bills now before the Council, I will only add that the Government of India is fortunately enabled to say that its policy is cordially approved by all the local governments which these Bills will affect, not only with regard to the proposals that specially affect the land, but to all the measures by which we hope to provide the necessary insurance against famine; and further, that these governments confidently look forward to the successful application of these measures in their respective provinces. I do not doubt that these assurances will be as satisfactory to the public as they have been to the Government of India.

"A desire has been expressed that I would explain more fully than has hitherto been done, the manner in which the Government proposes to apply the proceeds of these new taxes. I shall, I feel certain, be very readily able to do this to the satisfaction of the Council, for nothing can be clearer than the principles on which the Government proposes to act.

"I can hardly do better, in the first place, than ask the Council to look at the brief official Statement of Objects and Reasons, which was published with the new taxation Bills when they were first introduced. That statement explained, in a few words, the reasons for these measures. It was said that the necessity was imposed upon the Government of India of bringing the public revenues and expenditure into a state of proper equilibrium; that famines could no longer be treated as exceptional calamities, and that the obligations entailed by them must be provided for among the ordinary charges of the State. The periodical occurrence of famine must, therefore, enter into the calculation of the Government in making provision for its ordinary yearly wants, and such a surplus of ordinary income over expenditure must be provided in each year of prosperity, as would make a sensible impression on the debt which it might be necessary to incur in times of famine. To enable the Government, it was said, to meet these obligations, additional taxation was necessary.

"The object, which I thus stated, is a perfectly simple one. These new taxes are required for the sole purpose of giving us, year by year, a sufficient surplus of income over expenditure to meet these famine charges, which had not hitherto been taken into consideration in our yearly accounts. It seems to have been supposed by some that the primary object of the Government of India was to give to the local governments the proceeds of these new taxes, and to transfer to them, in some mysterious manner, certain indefinite obligations in relation to the future charge arising from famine. There could be no greater mistake, and I am sure that I have never said anything to justify it. These great calamities can only be met by aid of the resources of the Government of India, and it is these resources that must be strengthened to meet the obligations they impose. Although then, as I shall presently explain, we shall use the local governments as our agents in levying these taxes, their proceeds will mainly go into the Imperial Treasury. With their help, we hope to secure that surplus revenue which will enable us in the future to discharge the heavy obligations which the periodical occurrence of famine entails upon the country, without being driven into the fatal course of constantly increasing the public debt, and the burden it involves.

"As I previously explained, we start with the hypothesis, that in every 10 years the Government of India will have to spend 15,000,000*l.* on the relief of famine. The case will be put into its simplest form, if we assume that the whole of the 15,000,000*l.* will have to be spent at once at the end of this period, and the arguments I am about to use will not be in any way invalidated by this assumption, though it be not strictly true. Now, as the very foundation of our policy is the resolution not to permit this expenditure to create a constantly increasing charge for interest, the expedient of simply borrowing when the occasion occurs, and thus increasing the annual charges on account of debt, say, by 600,000*l.* in each period of 10 years, must, of course, be set aside; and it follows that we can only obtain the 15,000,000*l.* which we require by saving up an equivalent sum in years of prosperity. If we provide for this purpose a

bond fide surplus of 1,500,000*l.* a year for 10 years, we shall have obtained our 15,000,000*l.*

“As we cannot keep our annual savings locked up in a separate box, it is inevitable that, when the actual necessity for spending the 15,000,000*l.* arrives, we shall have to borrow the money, so that what we have practically to do is this—we must reduce our debt by 1,500,000*l.* year by year during the whole period, or by 15,000,000*l.* in the 10 years, thereby reducing the yearly charge for interest at the end of that time by 600,000*l.* Then, when the necessity for spending the 15,000,000*l.* arrives, we can borrow that amount and incur a fresh charge for interest of 600,000*l.* a year, and be no worse off than we were 10 years before. This process, by which in periods of prosperity the charge for interest on debt is gradually reduced, thus constantly restoring the exhausted power of borrowing without increased taxation, is what the Government virtually proposes to adopt.

“In India, however, the policy has been deliberately and wisely accepted of borrowing every year large sums of money for the construction of the railways and canals which it is absolutely necessary that the country should possess if its material advancement is not to be arrested. Even if the financial consequences of this policy had been less satisfactory than they have been, it might still have been our duty to persevere in it, though it should have called for increased sacrifices from the country in the form of taxation. But experience has shown beyond the shadow of a doubt that, looking at the matter even from a purely financial point of view, we could have done nothing wiser and more profitable than go on investing capital in these undertakings; and that, so long as these investments are prudently limited, as they have been up to the present time, so that the growing income derived from the works keeps pace with the charge for interest on the borrowed funds, they may be continued with complete financial safety.

“It was on considerations such as these that Lord Lawrence in 1869, in his Minute on railway extension, assuming that the revenues could, without objection, bear a yearly charge of about 1,300,000*l.*, to meet the interest on capital outlay on productive works in course of construction, &c., during the period in which their income is becoming developed, based his proposals for the gradual, but systematic, prosecution of this class of works, and that the Government of India has been since acting with most satisfactory results. The forecasts relating to the extraordinary expenditure on railways and irrigation works that have from time to time been prepared in the Public Works Department have supplied sufficient evidence of the prudence with which this part of our financial policy has been conducted, and it is only necessary to follow the same principles in the future to ensure equally sound results.

“The truth of these remarks can readily be established. In the first place the net charge for the interest on the guaranteed railway capital, which was upwards of 1,800,000*l.* in 1870–71, was reduced by the growth of the income to less than 300,000*l.* in 1876–77, while in the present financial year, partly, no doubt, from the increased famine traffic, the interest will be more than covered. And, though next year quite so good a result cannot be anticipated, it is certain that in these six years a net improvement of more than 1½ millions has been secured for the public revenues by reason of these works. During the same period the total expenditure on State railways has reached a sum involving a gross charge for interest now amounting to 700,000*l.*, against which we already have a net income of 300,000*l.* yearly, leaving a net charge of 400,000*l.* The irrigation works carried out in the same years have led to an increase of interest charge of 400,000*l.*, set off by an increased net income of 200,000*l.*, leaving a net charge of 200,000*l.* On the whole, setting off the increased charge of 600,000*l.* against the improved income of 1½ millions, the general result is an improved financial position of 600,000*l.* a year, notwithstanding the large investments made in the new works, a considerable part of which is necessarily not yet productive, though it is rapidly becoming so.

“The same general result is plainly indicated otherwise by the fact that the total charge for interest on debt of all sorts and guaranteed railway capital is in the present year less than the charge in 1870–71 by about two millions, to which sum should be added the net increase of income due to public works, amounting, say, to 500,000*l.*, to show the improvement in the general financial position, which, if not directly due to the prosecution of these works, has, at all events, been consistent with a continued average expenditure upon them of hardly less than four millions a year. It must also be remembered that these results have been secured during a period in which very exceptional seasons of scarcity have occurred, involving charges of some 16 millions sterling.

"We assume, therefore, that the Government will continue to borrow money on these principles for such productive works.

"Now, it would be obviously absurd to pay off every year debt to the amount of 1,500,000L., and simultaneously to incur fresh debt to the same extent. What, therefore, we have to do in the actual circumstances of the case is, by applying to the construction of these works the proceeds of the new taxes, to reduce by 1,500,000L. a year the sum which we might otherwise have borrowed. The ultimate financial result of this, as will readily be seen, will be practically the same as that which would have followed if we had devoted every year 1,500,000L. to the actual repayment of debt. For, returning to our former hypothesis, we shall at the end of our 10 years thus have prevented borrowing to the extent of 15,000,000L., and our annual charge for interest will then be less by 600,000L. a year than it would otherwise have been. We could, therefore, if occasion required, borrow 15,000,000L. for the relief of famine, and be in no worse a financial position than we were at the beginning of the period of 10 years.

"The soundness of this argument depends of course on the assumption that the works which are constructed from our annual contribution of 1,500,000L. from the public revenues will be really reproductive, that is, that they will at the end of the 10 years produce an income at least equal to the interest which we should have to pay, if we had then to replace, by borrowing, a sum equal to that furnished from the new taxes for their construction. This assumption, however, has no special or peculiar significance in connexion with these new arrangements; it is (as I have just explained) the justification of our whole policy of borrowing money for works of public improvement. Whether we construct our railways and canals with borrowed capital, or pay for them out of this famine insurance fund, we equally assume that they will eventually give us a return of more than the ordinary charge for interest on the outlay; and, to repeat what I have said before, experience has now been sufficiently prolonged to show conclusively that, notwithstanding all the mistakes that have been made, the gradual growth of the income of the productive public works has been sufficient to protect the Imperial Treasury against any increase to the actual charge for interest on debt. This explanation will show the Council how, either by the direct discharge of debt, or by the investment of money in productive works, if the circumstances of the time should render that course most suitable, charges on the revenue may be extinguished, or new income created, which shall enable the Government to borrow in the future to the full extent to which the proceeds of the new taxes are applied, and that a true famine insurance fund will thus have been created.

"I have hitherto spoken as if the subject concerned the Imperial Government alone; and I have made no reference to the part in the arrangements which will devolve upon the local governments. Vitally important as this part will, in my opinion, be, I might indeed almost pass it by on the present occasion, because it is not the subject now before this Council. We are really merely asking this Council to authorise the imposition of new taxes for the purpose of improving the financial position of the Government of India to such an extent that it will be able to undertake with its ordinary revenues, by help of the arrangements that I have described, the duty of preserving the lives of the people in time of famine. At the same time the Government is most ready to give every explanation in its power to the Council on all parts of its policy, and I will as briefly as possible state the manner in which the action of the local governments may be expected to conduce to the great end we have in view.

"I have on former occasions stated to the Council, with a persistency which I am afraid has sometimes wearied them, that the keystone of the whole financial policy of the present Government is the enforcement to the utmost of the responsibility of every great province of the empire for meeting its own local wants. We have given to the local governments largely increased powers; we declare that they alone are competent to deal wisely with the details of administration; that they have advantages which we cannot possess of seeing what their own provinces require; and that it is only by acting on these principles that we can obtain either good provincial administration, or exercise that intelligent power of control on the part of the Imperial Government which we look upon as essential to the prosperity of the empire. It is childish to suppose that the Government of India increases its strength by meddling with details about which it knows nothing.

"A great deal has been done, and a great deal remains to be done, in carrying these principles into effect; and the most serious duty now before us is their application to the great problem of preserving the country against famine. I do not now pretend to

say how this application of these principles is in detail to be carried out. The whole subject of the measures to be taken for the prevention and relief of famine is so vast that it would be mere foolishness if I were now to attempt to enter upon it. It is, as the Council and the public are aware, about to be referred to a special commission of inquiry, and certainly no greater question had ever to be studied than that on which they will have to deliberate and advise.

If, therefore, I now am asked to describe how this money, which the Government of India proposes to devote to the relief and prevention of famine, is to be spent, I can give no exact reply. I cannot tell the Council what railways and canals will be constructed; still less can I tell them what systems of relief will be acted upon when millions of starving people have to be fed, or what changes of administration will be necessary to enable the measures of prevention and relief to be carried out under the best possible conditions. All that I can say with certainty is this, that, if the great works for increasing the productiveness and for improving the communications of the country are to be wisely chosen, and wisely and economically executed, and if the income which they yield is to receive its best development; if again, when famine actually occurs, sound principles of relief are to be applied with real efficiency and wisdom, it will be through the agency of the local governments and the local authorities that these results will be obtained, and not by the action of the central government. Among all the responsibilities which we desire to impose on the local governments, the greatest of all will be that of protecting the people of their own provinces against famine. The working out in detail of the arrangements by which we hope that this object may eventually be accomplished will be a work of time. We do not disguise from ourselves the fact that many of the efforts which may be made before prolonged experience has been gained may hereafter be found to have been erroneous; but this is no reason why we should now hesitate to take the first steps, which seem to us at the present time to be required. We can do little more now than declare the principles which we intend to follow. I have already explained those principles. While we say that every province must be primarily responsible for supplying the wants which arise within its own limits, we have not been able to devise any plan by which the actual expenditure for the relief of widespread famine could be charged directly to the local governments. When a famine occurs, local resources are necessarily for the time swamped and overwhelmed, and the whole resources of the empire must be employed for the relief of the afflicted territory. On the other hand, to enable the Imperial Treasury to bear such great occasional burdens, all the provinces must year by year contribute what I have called mutual assurance payments, which payments go to form the surplus to be stored up for use in time of need; not, of course, to be stored up idly in the treasury, for that would be a reckless purposeless waste, but stored up in the shape of unemployed borrowing power, which would otherwise have been consumed. Thus, as I have said before, resources will be created upon which the central authority will draw, whenever it is found necessary to discharge the obligations arising from what I have called the dead weight of famine expenditure.

"To maintain the principle of provincial responsibility, and to give to the local governments a substantial interest in the efficient and economical levying of the new taxes, these taxes will be imposed provincially, and we desire, so far as possible, to distribute the funds which will become available for the construction of railways and canals among the local governments with some regard to the amount of the local contributions. Although, as I have already explained, it is necessary that the special resources now created shall be at the complete command of the Government of India, we shall leave to the local governments to be spent by them a margin from the new taxes, just as we have left them a margin of the revenues from excise and stamps, which have lately been made provincial. The imposition, provincially, of the new taxes will bring home the sense of provincial obligation more fully than would have been the case if the taxes had been treated as imperial; and the propriety will be more readily acknowledged of leaving the local governments to construct and maintain and profit by the works to which these new taxes will contribute.

"There is an additional advantage which we hope will result from these new measures. To whatever extent we can supply funds from the produce of the new taxes, we shall be less dependent than heretofore on borrowed money for the means of constructing our reproductive works; and we may hence reasonably hope to be able in future to provide funds for these purposes with more regularity and certainty than has hitherto been possible.

"I see in another direction also promise of further relief to the central government, and of great benefit to the provincial governments, in respect to the debt to be here-

after incurred for works of local utility. Both in Bengal and in the North-western Provinces steps which have been attended with marked success have already been taken for obtaining subscriptions to loans in the localities interested in works of this character. I hope that it may be found possible to develop and systematise such a means of providing the capital that may properly be borrowed for works of improvement, and that local contributions may be successfully sought under conditions which will interest the classes directly benefited by such works, not only in the provision of the funds required for their construction, but in the proper management of the works when they are completed, and in the development of the revenue which they produce.

"The arrangements which we are now making will be in complete harmony with those which were initiated in March last. The Imperial Treasury will be protected, if not wholly, at least to a very great extent, from past and future charges on account of interest on the capital invested in railways and canals. The provincial revenues will have to supply to the Imperial Treasury, or to hold at its disposal year by year, a sum equal to the interest on the capital expended on all the reproductive works, constructed either with borrowed money or funds supplied from the new taxes; and, assuming that the works are judiciously designed, executed, and managed, this sum will be provided by the income which they produce. The surplus income yielded by the works will go to increase the provincial revenues. These arrangements will give the best possible security for the judicious selection of the works, their economical construction and management, and for proper attention being paid to the development of the income they should produce. Their failure will entail burdens which the provincial revenues will be required to meet; their success will add to those revenues and to the resources at the command of the local governments in the most advantageous manner possible for the country, without more taxation, and through the instrumentality of works which constantly add to the wealth of the community at large."

"I think, my Lord, that I have now made it sufficiently clear how we propose to apply the 1,500,000*l.* which we hope to provide as an insurance against famine. We shall apply it virtually to the reduction of debt; and, when the calamity of famine actually arrives, we hope, not only to be able to meet it without throwing fresh burdens upon the country, but to find that our means of giving efficient relief have been immensely increased by the useful works which we have carried out in the preceding years of prosperity."

The Honourable Mr. Thornton said: "My Lord,—Having been employed for some 20 years in the Punjab, and had opportunities, in the course of my service, of becoming more or less acquainted with every district of that province, I desire to trouble the Council with a few remarks upon the Bills now under consideration, chiefly by way of supplement to the statements contained in the speech of the honourable Mover."

"With regard to the License Bill, I have little to say, except that there has been, on the part of the district officers of the Punjab, a chorus of consent that, if additional taxation is necessary to provide insurance against famine, no classes can be more justly called on to contribute than the trader and the artizan, for none have benefited more from British rule, and none have paid so little for the advantages they enjoy. The form of the tax has been generally approved, and if, as we are assured by the honourable Mover will be the case, though it does not so appear on the face of the Bill, the tax is not to affect persons with incomes of less than 100 rupees per annum, it certainly cannot be regarded as a tax upon the very poor."

"But it is to the Bill for the levy of additional rates on land in the Punjab that the greatest objection has been raised. It has been urged on the one hand that the land cannot bear the additional burden it is sought to throw upon it; and, on the other, that it will be regarded as a mere addition to the land revenue demand and in breach of the engagements made at settlement. Now, in regard to the first point, personal observation enables me confidently to endorse the opinion of the honourable Mover, that the landowners of the Punjab can well afford the proposed insignificant addition to the local rates; for, in common with most observers, I am satisfied that, owing partly to the moderation of the land revenue assessments, partly to the security of title derived from the record of rights, partly to the room for extended cultivation, partly to improved communications and other results of British administration, the agriculturist of the Punjab is, as a rule, eminently prosperous and thriving. But individual opinions upon a point like this are less valuable and less convincing than a

few plain facts, and I trust, therefore, it will not be deemed out of place if I take up the time of the Council in citing a few facts in support of my assertions.

"I will begin, then, by endeavouring to give some proof of my assertion regarding the moderation of the land revenue assessment in the Punjab. For this purpose I cannot do better than call the attention of the Council to page 9 of the general summary prefixed to the Punjab Administration Report for 1875-76, where will be found a concise history of the land revenue assessments of the province from before its annexation to the present time. The substance of the information there given is as follows :

"Under the Sikh Government the principle of land revenue administration was a very simple one. The State, as proprietor in chief, took from the land all that it could get; in other words, it absorbed and appropriated the entire rental. It handed over whole tracts of country to the mercy of farmers of the revenue, and the farmer of the revenue often took as much as one-half the gross produce of the land, besides a multitude of cesses under the names of *rasum*, *nazraná*, and the like, and exorbitant fines on succession. After the first Sikh war the Punjab came, not under the dominion, but under the paramount influence, of the British Government, and one of the first points to which the attention of the British advisers of the Sikh Darbár was turned was the oppressive character of the land revenue administration. Accordingly, the State demand was reduced, and settlements made of the land revenue, for terms of years, on the basis of the State taking, not half, as previously, but one-third, of the gross produce. This arrangement was at the time hailed with delight by the agricultural population as a very liberal concession. Then came the second Sikh war, followed by the annexation of the Punjab; and very shortly after annexation measures were taken to introduce what are termed regular settlements into the Punjab; these are, as most of the Council are aware, settlements of land revenue for terms of years, made after careful survey and inquiry into assets. Well, when these regular settlements were first introduced in the Punjab, the system then in force in the North-western Provinces was adopted, under which the State's land revenue demand was limited to two-thirds of the net assets or landlord's rental, amounting to about one-fourth of the average gross produce; that is to say, the British Government commenced its revenue system by claiming as its share of the rental just half the amount that had been taken by the Sikhs. Since that time a further concession has been made, and the State's demand has been further limited to half the net assets or rental, and all more recent settlements have been and are being made upon this principle. And it must further be observed that, though the assessments are levied upon the principle of the State, as chief proprietor, taking half the rental, in practice the amount taken is considerably less than half the rental. Measured in kind the State's demand may be said never to exceed one-sixth of the gross produce; it is frequently not more than one-eighth, one-tenth, or one-twelfth; and, in some tracts where the rainfall is scanty, it is not more than one-fifteenth of the average gross produce, the value of which is calculated at its average price for a period of from 20 to 30 years. Let us now see what effect this liberal policy, working in combination with the other causes I have adverted to previously, has had upon the position and prospects of the agriculturists in the Punjab. One result is that there is a striking difference in the amount of land revenue demand in British territory on the one hand, and in the territory of adjoining native states on the other, a circumstance greatly conducive to a feeling of contentment in the British subject. Another result is that the land revenue, even after new assessments involving considerable increment of demand, is collected with the greatest ease; another effect may be seen in the improved clothing and manner of life of the agricultural population; but perhaps the increasing wealth of the peasantry will be better gauged by the following facts taken from the returns appended to the Administration Reports. In the year 1868-69, the first year for which the statistics of area and cultivation prescribed by the Government of India were prepared, the cultivated area of the Punjab Province (exclusive, of course, of native states) was in round numbers 20,100,000 acres, and the land revenue demand 217 lakhs of rupees. This demand fell at an average rate per cultivated acre of Rs. 1. 1. 3., a rate of incidence which experts will admit to be very moderate in comparison with the rate of incidence in other parts of British India, and still more so in comparison with rates prevailing in adjacent native states.

"In 1872-73 (five years later) the cultivated area had increased from 20,100,000 acres to 22,600,000 acres, and the revenue demand, though it had been intermediately increased in the ordinary course of settlement, fell at the average rate of only Rs. 0. 15. 7 per cultivated acre. In other words, extension of cultivation had reduced

the revenue demand per acre by 10 per cent. I regret my inability to produce statistics of more recent date, but the reason is that, with a view to save labour and inconvenience to the people, the statistics from which I have quoted are prepared, not annually, but quinquennially. But I have little doubt that the next quinquennial return will show a similar if not a greater extension of cultivation, and I am informed that the spring crop now in the ground in the Punjáb is by far the most extensive ever known.

"Concurrently with this expansion of cultivation, and the steady reduction in the originally moderate rate of incidence of land revenue, there has been a most remarkable increase in the selling price of land. At the time of annexation, such was the crushing character of Sikh taxation, that ordinary agricultural land had scarcely any market value at all. In the year 1859, when I had the honour to hold the post of Secretary to the Financial Commissioner of the Punjáb, the average selling price of revenue-paying land was, I recollect, a little less than four years' purchase of the assessment; in 1868-69, ten years later, the average selling price of land was 18 years' purchase of the assessment; in 1873-74, or five years later, it was 28 years, and by the last return, that for 1875-76, it was 30 years' purchase of the assessment.

"Now, as the agricultural interest of the Punjáb is not made up of a limited number of large landed proprietors and a mass of tenantry, but is composed chiefly of a multitude of small landowners, this enormous rise in the value of land does not mean, as it would mean in the case of England or Bengal, that a few individuals have become millionaires, but that the mass of the agricultural population are, so far as the value of their land is concerned, more than six times as well off as they were twenty years ago.

"With these facts before us, it is impossible to believe that the slight increase now proposed to the local rates will cause any serious inconvenience; for what does the Government ask? Why, it asks a body of landowners, whose property has more than sextupled in value, to pay a famine insurance rate for that property, amounting on an average to one farthing per acre per annum.

"But, though the general condition of the Panjáb peasantry is such as I have described, I would guard myself against being supposed to assert that such condition is universal. Here and there it may be that, owing to special causes, the state of the agriculturist is not so prosperous; for instance, on the banks of those great irrigation works, the Western Jumna and Bári Doáb Canals, there are cultivators whose physique and energies have been destroyed, and whose lands have been defertilised, by that fashionable panacea—high level irrigation. In their case, and in the case of other exceptionally circumstanced tracts, some relaxation of the demand may be required; but for such cases ample provision is made in the proposed enactment, for in clause (d) of section 15 it is declared that 'the Lieutenant-Governor of the Punjáb may by notification from time to time * * * exempt wholly or in part any portion of the territories under his government from the operation of this Act, or exempt any land from liability to pay the whole or any part of any rate under this Act, and cancel such exemption;' and it is matter for satisfaction that the working of this provision, as well as of the other provisions of the enactment, will be in the hands of one who is perhaps better acquainted with the character, feelings, and resources of the people of the Punjáb than any other living Englishman.

"But, while there can be no doubt that the landowners of the Punjáb can generally well afford to pay the slightly enhanced local rate it is proposed to levy, it is equally certain that the enhancement will be regarded, like the original rates imposed in 1871, as an addition to the land revenue demand, and practically, if not literally, an infringement of the engagement made at settlement; and, do what you will, the Punjáb landowner will continue of that opinion. Explain to him with all the lucidity a trained intellect can command, that the land revenue is the share of the rental taken by the Government as proprietor-in-chief, and that the local rate is a tax on rent taken by the Government as Government, and he will reply, in the present instance it is to be hoped with a smile, that this appears to him to be a 'distinction without a difference.' This being the case, it has been suggested in the correspondence which is before the Council and in the Public Press, that it would be better, in the event of its being necessary to tax the agricultural population, to dissociate such taxation from the land, and levy it in some other shape, such as a house rate or an income tax. Theoretically, there is much to be said in favour of the proposal, but, looking at it from a practical point of view, I cannot agree in the suggestion, for the practical inconveniences would, I feel sure, outweigh the theoretical propriety of the arrangement. Assuming, as we must assume, that the Government is not precluded by the land revenue engagements

from levying an additional rate upon the land, and assuming, as we must assume, the necessity for taxing the agriculturist, I can conceive no other form of taxation less open to objection by the taxpayer than the one which has been adopted, namely, a per-centage on land revenue. Any other of the alternative forms of taxation which have been suggested has the great disadvantage of involving, *inter alia*, special inquiry and assessment and a special agency for collection; the form of taxation proposed in the Bill has the great advantage of involving nothing of the kind.

"We have now got thus far in the consideration of the Bill; we have attempted to show that the additional tax upon the land is insignificant in amount, that the Punjab landowner can afford to pay it, and that the form of taxation proposed is, upon the whole, the best that can be devised in his interests. The fact unfortunately remains, that the tax will cause a certain amount of dissatisfaction and distrust in the minds of the taxpayers. Not indeed that there will be any active discontent, for the landowner in the Punjab is far too loyal, far too well disposed, far too well off, to think of disobedience; but there will undoubtedly be a feeling of dissatisfaction which it seems desirable, if possible, to mitigate, even if it may not be possible to remove it altogether. What then can be done to mitigate this dissatisfaction? Well, as to this, I think, perhaps, we may learn a lesson from the past. In the year 1871, when the local rate was originally imposed, there was considerable dissatisfaction among the landowners; but this has, we are told, completely died away. And why has it died away? Because it was arranged that the local rates should be made over to district committees on which the landowners were to be largely represented, and spent before the eyes of the people in the districts for which it was raised; hence, in the year following the imposition of the rates, the Lieutenant-Governor of the Punjab was able to report as follows:—

"Any dissatisfaction which may have existed at the time the cess was first levied has now died away, as the people see that the funds are expended for their benefit."

"Now I am perfectly aware that this course cannot be exactly followed in the present case. The funds cannot be made over to committees, and spent in the districts from which they may be levied; but may not something be done to show the taxpayers and the public generally, clearly and unmistakeably, that 'famine insurance' is not a mere pretext for raising money for general purposes, but that the tax is *bonâ fide* expended on the object for which it is raised? My friend, the Honourable Mahārājā Jotindra Mohan Tagore, has dealt with this subject, in a letter addressed by him to the Bengal Government, in his capacity of Honorary Secretary to the British Indian Association, a copy of which has been laid before the Council, and his suggestions seem worthy of consideration."

The Honourable Mr. Colvin said: "My Lord,—I wish to make a few remarks upon the subject of the Land Rates Bill.

"Some doubts have been expressed, both in this Council and outside it, as to the propriety of adding any further to the contribution which is already made by the land towards the necessities of the State.

"I think that some of these doubts and objections may arise out of mistaken impressions relating to the history and nature and the pressure of our land revenue upon the people, and that these may be dispelled by a further and fuller knowledge of the facts. The subject of the land revenue in India is tedious and uninteresting, intricate in some of its details, and, above all, it is strange and unfamiliar. The ideas out of which it has grown, and which it has not yet ceased to represent, are so different from anything which we are accustomed to see in England, that it is not easy to get rid of the distorting medium which our English experience constantly interposes between ourselves and the true facts.

"Erroneous impressions about it, therefore, are not uncommon, and it may not be out of place if I recall what the actual position of the land-owning class is in those provinces to which the Bills now before the Council are intended to apply. I propose to do this as generally and briefly as it is possible for me to do. I must ask for the forbearance and patience of the Council if, in what I propose doing, I unavoidably go over ground which to many honourable members is only too familiar. But it would be difficult to make the arguments which justify additional taxation of the land easily intelligible to everybody, without first giving some sort of statement of the facts upon which they rest.

"The land revenue in Upper India, as everybody knows, is only a portion of what would be called in Europe the landlord's rents. The State, or the Sovereign, is the paramount landlord in India, and the share of the rent taken by him in old times,

however it may have been restricted in theory, was in practice limited by nothing but the power of the subjects to offer, in some shape or other, an effectual resistance to his demands. It is not an incorrect description, I believe, to say that this was the state of affairs to which the British Government succeeded in all of the provinces to which the Bills before the Council relate when they passed into its hands. I mean, that the division of rents between the ruling power and the land-owning class was subject to no limitation except that of

‘The good old rule, the simple plan,
That those should take who have the power,
And those should keep who can.’

“The precise amount of the share which was left by the proprietor in the early days of our rule cannot now be ascertained. It was supposed to be a certain portion of the total produce; but, as nobody could say, either now or then, what the total produce is, this leaves room for indefinite speculation. It is pretty certain, though, that in the earliest acquired provinces, the North-western Provinces, it was something less than one-fifth of the rents paid by the cultivators. For in 1822, when the first regular settlement was contemplated, and steps were taken towards adjusting the respective shares of the landlord and the State for a longer term of years than heretofore, it was declared that at least 20 per cent. of the entire rental of each estate should be left to its owners. In less than 20 years after 1822, fresh settlements, which lasted for a term of 30 years, were made, and by these the landlord's share of the rental was increased from one-fifth to one-third of the rental receipts. But the liberality shown and concessions made by the State did not stop here. When the settlement for 30 years, which has just been referred to, expired, fresh arrangements were entered into, by which no less than half of the rental was given up to the land-owning class, and an equal division was made between them and the State of the profits derived from its ownership. This is still the proportion in which the rents are divided between the two; one-half goes to the proprietor of the estate, and one-half into the public purse. This is an immense advance for what has become the landlord class, from the poor and insignificant position which they occupied when they first came under the control of the British Government. Looking to the proportionate amount only of the rental which they now enjoy, and comparing it with their former share, we see that they are more than twice as rich as they were. But even this conveys no adequate idea of the great improvement which has taken place in their circumstances. It is not only that they have obtained a larger share of the produce, but that the value of that produce has enormously increased. Contrasting the present prices of agricultural produce with those of (say) 60 or 70 years ago, I doubt if I exaggerate when I say that its money value has doubled, and it would perhaps be safe to say that the land-owning class as a body, instead of twice, are four or five times as rich as they were at the beginning of the century. An illustration of the progress made in the Punjab has been given by the honourable member who spoke last; and the fact which he has mentioned, that land which used 30 years ago to sell for three or four times its annual value will now fetch 20 times the amount of its revenue and more, is true of many other parts of the provinces for which the Bills have been framed. Everywhere there has been an extraordinary rise in the value of land. The cost of living, on the other hand, has no doubt increased. So far as this is caused by a rise in prices of the commodities that the agricultural classes have to buy, it is, of course, a drawback to their prosperity; but, in so far as it is due to greater comfort and a higher standard of living (and I believe this to be a more potent cause than the other), no abatement is necessary. Making all necessary drawbacks, the fact of their great advance in wealth and prosperity is too plainly evident to be called in question. It must be borne in mind, too, that, whatever the industry and intelligence of the proprietary class may have been, this improvement in their position is, in very great measure, due to the direct action of our Government. It is scarcely too much to say that it has created proprietary rights in the soil. It has secured them by maintaining good order and tranquillity. And it has added indefinitely to their value by furnishing marvellously improved and accelerated means of communication, and by opening markets for the produce of the land, of which the people of two generations back never even dreamed.

“This is the history of the way in which the landed interests of the North-western Provinces have been dealt with. It can scarcely be said that the conduct of the Government towards them has shown any inclination to oppression and rapacity. The history of the other three provinces in which it is now proposed to add slightly to the taxation of the landlord classes, differs in no important respect from that of the North-

western Provinces. They passed into our possession later, when our policy had become more liberal; therefore they never received so small a share as the proprietors of the North-western Provinces were restricted to in the early days of our rule. In none of them, speaking generally, has the native proprietor's share been less than one-third of the entire rental since they became British territory. And now I believe that it nowhere is a smaller proportion than one-half, indeed in many parts the proprietors are actually in the enjoyment of more than a half.

"So far I have spoken of what is generally meant by the word land revenue when it is used in this country, that is, the Government share of the rental in each estate.

"I come now to those rates which are levied from land, in addition to the land revenue. These rates are taxation in a direct shape.

"They are not claimed as part of the great customary rentcharge which the State receives from the land, and which constitutes its land revenue. They are levied from time to time, as direct taxation, apart from that rentcharge, and are paid by the landlord out of that share of the rental which furnishes his own income. I will not stop now to consider the justice of this form of taxation, though it appears to me as right and just as taxation in any shape can be. I wish at present only to consider the nature and amount of these rates.

"They vary in the different provinces to which the Bills before the Council are applicable. They are highest in the North-western Provinces, where they amount to 5 per cent. on the rental. They are lowest in the Central Provinces, where they do not exceed $2\frac{1}{2}$ per cent. In Oudh they are $2\frac{1}{2}$; and in the Punjab $3\frac{1}{2}$ per cent. upon rental. A portion of these rates is old, and a portion of recent imposition.

"The 5 per cent. which is taken in the North-western Provinces is no new taxation. It has been levied for a great many years past. I mention this because I have seen exception taken to the levy of the additional rate of 1 per cent. for famine purposes, which is now proposed, on the ground that, only so lately as 1871, the people of the North-western Provinces were subjected to new and extraordinary taxation which swallowed up 5 per cent. of the entire rents of their estates. It is as well that a misapprehension of this sort should be corrected. The truth is that the Local Rates Act, 1871 (except as far as it related to that small portion of the North-western Provinces which is permanently settled), did not impose any new taxation at all. It merely legalised rates which had been actually collected for a long time prior to 1871. It should be clearly understood that the 1 per cent. now under consideration will, if passed, be the only new tax (excepting the income tax) which has been imposed upon the land-owning community of the North-western Provinces as a body for the last 20 years or more.

"In Oudh, of the $2\frac{1}{2}$ per cent. which the native proprietors pay, $1\frac{1}{4}$ was newly imposed in 1871, and $1\frac{1}{4}$ was of older standing.

"In the Central Provinces the $2\frac{1}{2}$ of the rental which is paid, dates entirely, I believe, from the last settlements, that is, from 10 or 12 years ago.

"In the Punjab the existing rates were first imposed in 1871. These rates are high, but we have heard from the honourable member who spoke last how very far they are from being a heavy burden upon the resources of the people, and how little dissatisfaction they created, though they were much heavier than the rate which is now proposed.

"The present relation between the State and the land, then, in the provinces of which I am now speaking, may be summed up broadly thus:—That the State in its capacity of landlord enjoys one half of the rents paid by the land, and that it also directly taxes the native proprietors of the soil by rates applied to local purposes, which range between $2\frac{1}{2}$ and 5 per cent. of the entire rents that pass through their hands.

"The measures now before the Council, if passed, will raise the amount of this latter payment by 1 per cent. all round; and some doubts have been expressed, as I said at the commencement, of the propriety of such taxation.

"These objections, so far as I have seen or heard or understood them, have been directed partly against the justice of the proposal, and partly against its expediency.

"As regards the injustice of such taxation, it is said in the first place, that the agricultural classes are already contributing more than their fair share to the general revenues of the country.

"Well, it is true that the land revenue does supply rather more than two-fifths of the total public income of India. Judged by our European standard, this may naturally seem an excessive amount. But, if we wish to judge rightly, the first thing that we have to do is to put European standards out of our head, and to consider facts,

not as they exist in other countries, but as we find them in this. If the landlords of England were compelled to-morrow to resign one-half of their rental to supply the public necessities, no doubt it would be felt as nothing short of confiscation. In India, as we have seen, taking one-half of the profits of land, is making a large and liberal concession to its owners. We must not lose sight of the fact that it is not the income which a man has never had, and which he has never dreamed of having, that he feels it an oppression to be deprived of. It is the money deducted from his ordinary and accustomed means of living that he misses, and the taking of which comes home to him as taxation. Looking at the question from this, which seems to me the true point of view, and remembering that what they pay as land revenue has never formed part of their income, I do not think that it can fairly be said that the proprietors of the land are unduly burdened. Their accustomed means of living, so far from being less, are much greater than they were in former times. If we take the case of the North-western Provinces, where the rates are considerably higher than anywhere else, and add the amount of them to what is paid to the State in its capacity of landlord, we find that out of every 100 rupees of rental, not more than 55 rupees go into the treasury, namely, 50 rupees as land revenue and 5 rupees as taxation. If we add the 1 rupee, which it is now proposed to take, it will be 56 rupees. Half a century ago, 80 rupees would have been required; and up to 20 years back 66 rupees would have been demanded by the State. The landowners therefore are receiving much more, and contributing much less, than they have ever done in times past. I have taken the case of the North-western Provinces as that in which the claims of the State are largest. The argument, of course, is still stronger in the other provinces, where the payment made by the proprietors is smaller. In the face of these facts it seems to me impossible to make good any case for further indulgence towards agriculturists as a class. Assuming that they are in a position to contribute without hardship towards the funds which are required for the general protection of all classes from famine, I would ask, how they can be exempted from doing so without inflicting very great injustice on all other classes? The population of the provinces to which the Bills now under consideration are intended to apply is mainly agricultural. The proportion which the agriculturists bear to the entire population in them ranges between 56 and 64 per cent.; roughly speaking, it is about 60 per cent. We can judge from these numbers what the effect would be of exempting the agricultural class entirely. It would compel two-fifths of the people to pay for the support of the entire community in all future times of scarcity and famine. It seems to me sufficient to state a consequence of this sort, in order to show how impossible it would be for the Government, with any regard to justice, to exempt the agriculturists from taxation.

"I go on now to consider those objections which, without impugning the justice of taxing the profits of agriculturists, throw doubts upon the expediency of doing so. A principal objection of this sort is that the prosperity of the country mainly depends upon its agriculturists, that the great majority of these are very poor, and that to impoverish them further, by taxation, is, if not to kill, yet to injure very seriously, the goose upon which we depend for our golden egg. Now the fallacy of this argument, as it seems to me, is that it confuses the cultivators of the soil with its proprietors. The cultivators do, no doubt, form the mass of the agricultural community, and I fear that many of them are very poor. But I agree with the honourable member in charge of the Financial Department in demurring to the next step in the argument, which is that imposing 1 per cent. upon the landlords will make the cultivators poorer. I do not believe (generally speaking) that such a tax will affect them at all. The class which is taxed is that of landed proprietors, of men who live, not by cultivating the soil, but by enjoying the rent which is paid for its occupation by the actual cultivator. A powerful landlord, I am quite prepared to admit, can do a good deal that is irregular in this country, as in others, without being checked. But I think that this is very far from being true of all proprietors of land in the Upper Provinces of India, where large properties are the exception and not the rule; and I do not believe that illegal methods of transferring the incidence of this tax are likely to be generally successful there. Nor am I convinced that the legal powers which landlords have of enhancing their rents will help them to shift this tax on to their tenants. This will be evident if we consider the practical working of any attempt to do so. Suppose that a proprietor owns an estate with a clear annual rent of 100 rupees; he is enjoying 45 rupees of these under the existing settlement, and paying 55 rupees to the Government, 50 rupees for land revenue, and 5 rupees for rates. When the extra 1 rupee of taxation is imposed, he will be receiving only 44 rupees and paying 56 rupees. Suppose, again, that this proprietor is entitled, under

present rules, to enhance his rents, so that they will yield him 105 rupees instead of 100 rupees, and that he does so. Still, by raising his rental, he has not recovered his extra 1 rupee of taxation. This right of raising his rents does not depend upon the taxation which has been laid upon him, but upon grounds altogether irrespective of that. He could have improved his rental therefore up to 105 rupees in any case, and will still be poorer by the additional 1 rupee that he has to pay into the treasury.

"I do not mean to say that calculations of this sort can pretend to anything like mathematical accuracy or to be of universal application; but, making every allowance for the working of unforeseen causes, I think that the most reasonable expectation regarding the incidence of the proposed tax is, that it will not fall upon the poor and laborious tenant class.

"A further argument which has been used against the proposed tax is, that it is a breach of faith, and, as such, likely to lead to serious political dangers.

"So far as the tax can be said to have met with any opposition at all, I believe that the misgivings which have been felt have originated in feelings, more or less well defined, of this nature. And, if such a feeling were deep-seated and universal, even though it might not be well founded, it would furnish a very strong ground of objection. It is worth while, therefore, to see what amount of real force is contained in it.

"In doing this, I do not purpose to waste the time of the Council by any arguments directed to show that no breach of faith is actually committed by the imposition of a rate upon land, distinct from, and in addition to, the fixed demand upon it on account of land revenue. That controversy was fought out and settled some years ago, and the results of it have been sufficiently referred to by the honourable member in charge of the Financial Department in his speech to-day. Those who have still any doubts upon the conclusion which was then finally adopted, that the limitation of the land revenue does not confer an absolute immunity from direct taxation, in every shape, upon the classes who pay it, can look back to the records of the discussions then held, and they will, I think, find their doubts satisfied.

"I only wish now to say a few words upon the political importance which may rightly be given to any impression, right or wrong, on the minds of the people of this country, if there be such an impression, that they are being oppressed or unfairly dealt with.

"In the first place, I question whether the levy of an additional 1 per cent. will give rise to any strong feeling at all.

"In judging of its probable effect upon the people, I think we may dismiss from our minds all distinctions of land revenue and land rating, of the State's share as landlord, and its requirements as tax collector. It is not that I believe that these distinctions do not really exist. On the contrary, I have no doubt that they do, and that they are highly important. But I should not say from my experience that the people take much account of them. It has so happened that, from motives of convenience and economy, the manner in which the land tax has been levied, and the machinery for levying it, have been the same as those by which the land revenue has been collected. It is not by any means necessary that this should always be the case, and I hope that the advantages to be gained by changing the present mode of taxing the land, for one that distinguishes it more clearly from the land revenue, will, in time, outweigh what I admit to be at present the much greater counterbalancing advantages of the existing system. When that time comes, a distinction between land revenue and rates may perhaps arise in the minds of the landed proprietors who pay them. But at present I doubt if they draw any practical distinction between the two. They pay so much into the treasury. The Government may credit the money as it pleases; but to their minds it is one payment, and the whole of it made out of their own pockets, because the actual cash has passed through their hands, and they hold a receipt for it. It does not occur to them that the greater part of it, namely, that which represents their land revenue, has been paid over to the ruling power in the same way by their forefathers from time immemorial, and that it will continue to be so paid through any length of future time that we can look forward to, by themselves and their descendants, and that therefore this money has never belonged to them in any proper sense of the word. But, though this payment, regarded from their point of view, may be a large one, it does not seem so to them. They have always been accustomed to make it, and do not grumble at it. Nor do they trouble themselves with any nice considerations of the precise per-centages in which the profits of the land should be divided between themselves and the State. All that they are concerned about is that their means of subsistence should never be seriously curtailed. I hope that it has been sufficiently shown to the Council to-day that there is no

danger of any such considerable curtailment from the addition of another 1 rupee per cent. to their payments, and, as long as this is the case, though they may not like the extra payment, as who does like making payments, there will be no dissatisfaction, I believe, such as a government need take any account of.

"So far as to the likelihood of any strong feeling being aroused by the measures before the Council. Next, as to the 'breach of faith' objection, I cannot help thinking, when this argument is used by the taxpayers, that it is employed more for the effect that they hope it may produce upon those whom they are addressing, than because the argument carries any very great force to the speaker's own mind. The levy of cesses or rates in addition to land revenue has been familiar to the people for generations, and in some of the provinces affected they have been paying much heavier rates than are now demanded, for many years past, without a murmur. If they had really felt this to be a breach of faith, I think we should have heard more of this objection before now.

"Again, any objection which is taken on this ground to the proposed tax is just as applicable to an income tax, which has been levied from the agricultural classes at different times during the past 16 years. The cases are precisely similar. I know of no argument which applies to the one, that does not equally apply to the other. Yet, though I cannot say that the income tax was anything but an extremely unpopular tax in the part of the country where my experience has been, yet I do not remember that there was any strong or general feeling against it on this ground in Upper India. The agriculturists did not expect to escape from having to help in bearing the common burden, and submitted without serious discontent to their share of it during the continuance of the income tax. I do not know why we should suppose that they will be more suspicious and less reasonable now.

"I have referred now, as far as I am able, to the principal arguments which I have seen urged against further taxation on the land; but, in conclusion, I would remark that they do not appear to have found anything like general expression. It is true that expressions of opinion in matters of this sort are apt rather to follow, than to precede, measures in this country. It is one of the recognised difficulties of the Indian Government that there are such imperfect means of ascertaining the sentiments and feeling the pulse of its subjects. In the provinces which will be affected there is no Press which faithfully reproduces public opinion. That opinion must be sought for and found as best may be. The surest means that exist at present of learning the course of public sentiment is through the local officers of Government who are distributed over the country, who are in constant communication with people of all classes, and who will not hesitate to express frankly and fearlessly what they believe to be the general feeling of the country. Now, it is from these local officers that the local governments and administrations derive their information, and by them that they are in great measure guided in their action. It is a significant fact, then, that of the local governments and administrations concerned, with whom the responsibility will rest of collecting the tax, there is not one that has expressed any doubt or hesitation about the taxation of the land. They have on the contrary signified their cordial approval of it. This, I think, is the best assurance that it is possible for us to have, that the measure is not radically distasteful to the people affected, and the best assurance that there will be no great difficulties in enforcing it.

"But, even if these difficulties were likely to be far greater than I anticipate, I do not the less think that it is not only proper, but absolutely necessary, to carry the proposed measures into execution. The taxation of the land must not be judged of by itself, it must be regarded in connexion with the whole scheme of which it forms a part. That scheme is intended to provide for the famine expenditure of the whole country, an expenditure which is no old and recognised want of the administration, but one the necessity for which has only come to light within the last few years. It is a charge which the old ways and means of the empire are quite inadequate to meet, and the money which is to be raised will be applied for the benefit of all. In providing the money for a new and general necessity of this kind, it would be so grossly unjust to exempt upwards of one half of the population from stirring so much as their little finger towards lifting the common burden, that the difficulties and perils of any such course would, I am convinced, be far greater than any which can result from the measures which the Council are to-day asked to pass."

His Honour the Lieutenant-Governor said: "My Lord,—Though the measures now under the consideration of the Council do not immediately affect the provinces under my charge, they are the outcome of a policy which applies to the whole

country, and I hope that I may be permitted to say that I think that the explanation which has been given by the honourable member will be considered to be perfectly satisfactory. There is one fact on which my honourable friend has laid considerable stress which cannot be questioned, and that is, that the policy in respect to famine relief and famine prevention, which has been accepted by the Government of India, I believe with the full concurrence of all parties both in this country and in Europe, cannot be carried out without an increase of means, and these means can only be obtained by an increase of taxation. This being admitted, I must say that it seems to me, and I find that it is the opinion of most well-informed and thinking men, that no measures could have been devised more likely to be efficient, equitable, and unoppressive, than the measures which have been determined upon by your Excellency's Government.

"There is no question that the proper principle to follow in respect to the raising of revenue for such purposes as that which has led to the present schemes of taxation is, that all having a permanent interest in the welfare of the country should bear their share of its burdens. The measures now before the Council adjust the incidence of taxation upon all interests, whether trading or landed interests. And, though it has been alleged that the taxation has been thrown altogether on the poor, the license tax does not touch any of the quite poorest classes, because those who have incomes of less than 100 rupees a year are exempt, and, though it may be difficult for men who know nothing of the country to realise practically, a native with an income of 100 rupees a year is in a better position than a European trader or mechanic in Europe with an income of 100% a year; I am sure that every one really acquainted with native habits and modes of life and requirements will agree with me that this is so.

"I see that some objections have been raised to the levy of cesses on the landed interests of the North-western Provinces, on the ground that the cesses now levied do not extend to Bengal. Those who argue in this way seem entirely to forget that Bengal set the example of contributing such a cess to the imperial revenues, and last year relieved the Government of India of nearly 300,000% by imposing on the land charges hitherto borne by the Imperial Government. It would have been most unreasonable and unfair that this taxation should have been maintained in Bengal, while the landed interests of the rest of India were left free. Last year the only taxation imposed on the North-western Provinces was a low license tax, while Bengal raised enough to meet the demands of the Imperial Government by a cess on land; this year the Government of Northern India have supplemented their trades license tax by a cess upon land, while Bengal has supplemented its cess upon land by a license tax.

"It is nothing to the point to urge that the results leave the Bengal *zámíndar* in a better position than the North-western Provinces *zámíndar*; that really has nothing to do with the question. The object of the present measures is not to equalise the incidence of the assessments and charges upon land throughout India, but to levy an additional rate for a special purpose from one end of India to the other. Out of the money (1,500,000%) now required by the Government of India for the construction of works to prevent famine, Bengal will contribute 600,000%, or nearly one-half; and the outcry that she has been unduly favoured is most unjust and unfounded. It must be remembered that till the last settlement the *zámíndars* of the North-western Provinces had to pay to Government two-thirds of their collections, while they retained one-third. For no very apparent reason, when the new settlement was made, they were only called upon to pay half, keeping one-half. Admitting as I do that it is sound policy of the Government of India to limit its demands on the country to its actual requirements, and to distribute the burden of taxation as evenly as is practicable on all classes of the people, I should be sorry to condemn the principles of the present settlement; but the fact remains that, if the present settlement had followed the lines of the old settlement in respect to the shares of Government and the landholders, Government would, setting new cesses aside, have received two millions more per annum than it receives now. And, making all allowances for new cesses, including those now imposed, the landowners of the North-western Provinces are receiving $1\frac{1}{2}$ millions more than they received before. And, now that its imperative requirements have increased, I do not consider that there is anything unjust or unreasonable in Government imposing upon the classes who received these great benefits the same burden which is imposed upon all other classes; and, after all, the entire fresh charge thrown upon the landowners in the North-western Provinces is only 80,000% or 90,000%.

"Of course it requires no very great ingenuity to find some sort of objection, theoretical or practical, to every kind of tax; and I am sorry to have to say that those who are loudest and most unreasonable and impatient in their demands that Government should take upon itself the liability of relieving and preventing famine, and of constructing extravagant works of irrigation, are the first to put into the mouths of the people reasons why no one should contribute anything towards such a purpose. But the money has to be raised, and, this being so, I must congratulate your Excellency's Government as to the substantially fair and even manner in which this liability has been distributed."

The Honourable Sir John Strachey said: "My Lord,—In the discussion that has now taken place on the Bills before the Council, several questions of importance have been referred to, but I have said already all that I feel called upon to say upon most of them, and some of these questions have been completely disposed of by preceding speakers. There are, however, still a few points which have been raised, on which it seems right that I should offer some further explanation.

"First, as to the suggestion that these taxes should be imposed only for a limited period of time, in the hope that greater economy in military expenditure, or otherwise, may render their retention unnecessary. This suggestion has not been repeated to-day, but it was made at one of our former meetings, and I then promised to notice it.

"In reply to this, I would remind the Council that, before the Government resolved to introduce these measures, it carefully inquired whether any present reduction of expenditure could be made, and, for the reasons I before stated, it was satisfied that, so far at least as the civil expenditure was concerned, no substantial relief could thus be obtained. In regard to the home military charges, I sufficiently indicated the anxiety of the Government to obtain their reduction, or, if that were not practicable, at least to prevent their increase; but here the remedy is neither in our hands nor in those of the Secretary of State for India. If any remedy is to be found, it can only be applied by the British Parliament. The circumstances, however, are obviously not such as to give any justification for our relying on such a reduction of charge as could affect our present calculations.

"Next, I must remind the Council that we have still not provided for a considerable part of the ordinary surplus of half a million, which we are bound to secure, irrespective of the special surplus of $1\frac{1}{2}$ millions to constitute the insurance against famine, and that we have reckoned on future possible increase of income or reduction of charge to make good the sum that we still had to provide.

"Again, it is to these possible improvements of income, or to increased economy, that we have to look for meeting those future unforeseen charges for which experience shows that we must be prepared, and we may consider ourselves fortunate if such charges can thus be met without fresh calls for taxation.

"Lastly, the causes which have led to our present demands are unfortunately permanent, and not temporary, and the resources we create to meet those demands must be permanent also, or at all events they must continue until evidence is forthcoming that such a change of circumstances has arisen as will justify our abandoning them.

"It was suggested at a previous meeting of the Council, and the proposal has been urged in a memorial received from the British Indian Association, that a separate fund should be created from the produce of the new taxes for the objects now in view by the Government. I think it desirable to make a few observations on this subject. It may first be said that the money obtained by the new taxes will in fact be applied, either to discharge of debt the special origin of which cannot be ascertained, or to the construction of useful remunerative works of precisely the same description as those on which a far larger sum has hitherto been spent year by year, partly obtained from the general revenues, and partly from borrowed funds. It is not the intention of the Government to reduce this outlay; on the contrary, it hopes to be able to increase it. To create any separate fund, therefore, would be to make a perfectly arbitrary and artificial distinction between a small part of the outlay, say $1\frac{1}{2}$ millions, and the larger part, say three millions, on works in themselves not really distinguishable in their character or objects. Such a division would be, not only useless, but mischievous, and could not practically be maintained. It would necessarily lead to artifices in adjusting the grants and accounts, which would create suspicion and cause much trouble to all concerned.

"In fact, what the Government desires is to establish a sense of the obligation under which it is placed in respect to the expenditure due to famine, which shall be felt in the same way as the obligation to provide proper courts of justice, police, education, and so forth. For none of these objects has it ever entered into the mind of any one to suggest a special allocation of the revenue or a separate fund. Nor can any greater reason be found for a separate famine fund, than for separate funds for any of those other objects which are obligatory on the Government.

"The intention of the Government is to obtain the means of meeting the charges that arise in all parts of India on account of the relief of famine, whenever such calamities occur. This could not be done if the additional income obtained were specially allocated for expenditure in the provinces where it was raised, and there never was any such intention. At the same time, it is held to be desirable to employ the provincial governments in obtaining the funds, and in supervising their application, so far as it takes the form of an investment, in useful works of a remunerative character. It is with this exclusive object that it has been proposed to make the new taxes provincial, so that the best possible agency shall be secured for their collection and for administering their outlay in detail.

"I will not attempt to state in detail the reasons why the persons responsible for the administration of the finances reject separate funds of all kinds, unless under very special circumstances, as productive of confusion and complication, without any counterbalancing advantage. It will be enough, probably, after what I have already said on this point, to reconcile the Council and the public to the decision of the Government, not, in the present case, to create any separate fund, if I point out that any other determination might lead to results probably not contemplated by those who have suggested the establishment of a separate fund; I mean that this might involve the necessity for imposing more taxation. Suppose, for instance, that the produce of the new taxes were by law strictly set apart for the general revenues, and paid into a separate fund only to be applied to specified purposes. If, then, any sudden change of circumstances arose, calling for seriously increased expenditure, or causing a considerable falling-off in the revenue, we should have to choose between the imposition of fresh taxes and the abrogation of the law constituting the fund; for I set aside the idea of meeting ordinary charges by borrowing as a course financially inadmissible. This dilemma might arise, though the pressure was likely to be only temporary; nor can any one say that such a contingency would be at all improbable, or that it might not occur at any moment.

"With all my desire to see the pledges maintained that we have given, as to the application of a sum not less than $1\frac{1}{2}$ million as an insurance against famine, I think it would be irrational, under many circumstances that I can conceive, to object to the temporary diversion of any necessary part of the revenue from this purpose, with a view to obtaining relief which might be no less urgently required than that which experience has taught us to be requisite in meeting famine. When I introduced these Bills, I used the following words: 'Without thinking of a future far removed from us, events might of course happen which would render it impossible even for us who have designed these measures to maintain our present resolution.' I now merely repeat this, though I equally repeat what I before said, that 'I hope no desire to carry out any administrative improvement, however urgent, or any fiscal reform, however wise, will tempt the Government to neglect this sacred trust.'

"While, however, I cannot give any hope of the constitution of any separate fund or account of the produce and application of these new taxes, I would remark that it has already been publicly announced by Her Majesty's Government in the House of Commons, that it is intended to take steps for placing before the public, in a clearer form than that hitherto followed, accounts of the capital and revenue, income and outlay, of the larger productive public works, whether carried on wholly or in part from borrowed funds. The Government is now considering the means by which this intention may best be acted on, and I trust that the reasonable desire of the public to receive in a full and thoroughly comprehensible shape accounts of the financial results of these undertakings will thus be complied with.

"The British Indian Association, in the paper to which I have already referred, have proposed as a proper and sufficient way of meeting the charge arising from famine, that the sum required to pay the interest on debt created in time of famine should be met by special taxation. It is precisely this view that the Government of India rejects as quite incompatible with proper financial principles. It is the capital charge that must be paid off, not the interest. To adopt the course proposed by the Association

would lead to the constant increase of debt and taxation without limit, a course which cannot be admitted.

“ The Association also appears to regard it as sufficient, if provision is made from time to time for the discharge of the obligations arising from debt incurred in the past. It has not a word to say as to the future. Here, again, the policy of the Government is essentially different. The Government declares that it has exclusively in view the future, and that its primary object is to provide a revenue that shall enable it to meet future famines, without permanent increase of debt or of annual charge on the revenues; and it proposes to combine with this a system which, by judicious application of its increased means, shall secure the provision of those material improvements to the country which experience shows to be the best, nay, the only real, means of alleviating the pressure caused by famine when extreme drought occurs, while they are constantly adding to the wealth and prosperity of the people.

“ It now, my Lord, only remains for me to acknowledge, on behalf of the Government, the loyal spirit in which our measures have been received by all classes of the public, and to thank the members of the Council who have taken part in our deliberations, here or in committee, for the aid and support which they have given us.”

The motion was put, and agreed to.

The Honourable Sir John Strachey also moved that the Bill as amended be passed.

The motion was put, and agreed to.

ADDITIONAL RATES (NORTH-WESTERN PROVINCES) BILL.

The Honourable Sir John Strachey also moved that the report of the Select Committee on the Bill for the levy of additional rates on land in the North-western Provinces be taken into consideration.

The motion was put, and agreed to.

The Honourable Sir John Strachey also moved that the Bill as amended be passed.

The motion was put, and agreed to.

ADDITIONAL RATES (OUDH) BILL.

The Honourable Sir John Strachey also moved that the report of the Select Committee on the Bill for the levy of additional rates on land in Oudh be taken into consideration. He said,—“ My Lord, there is only one point in regard to this Bill which I wish to mention. In all the Bills for imposing additional rates on the land, it has been assumed by the Government that no questions are now under discussion regarding the propriety of altering the law under which the existing rates on land are levied.

“ On this ground, we have not been able to meet the wishes which in regard to some matters have been expressed by the local governments, that this opportunity should be taken of amending the existing law.

“ If such amendments are desirable, they must be separately considered hereafter. The sole object of our present measures is the imposition of new taxation for certain purposes. So far, therefore, as the existing rates on land in Northern India are concerned, our present Bills do nothing more than re-enact the existing law. To this general statement there is one exception only, and it is to be found in the present Bill relating to Oudh.

“ In March last Act VII. of 1877 was passed, authorising the Government of the North-western Provinces to appropriate a sum, not exceeding one-tenth part of the local rates, for the purpose of meeting charges on account of railways and canals of general provincial utility.

“ This Act has received the approval of the Secretary of State. The Lieutenant-Governor and Chief Commissioner of Oudh has, as the Council is aware, asked that a similar power to that which I have just described should be given to the administration of Oudh, which has now been united to that of the North-western Provinces. The Government considers that the circumstances of Oudh are so similar to those of the neighbouring province, that there can be no objection to applying the same principle in both cases.

“ This view has been adopted by the Select Committee, and, in accordance with the wishes of the local government, the necessary alteration has been made in the Bill as it was originally introduced.”

The motion was put, and agreed to.

The Honourable Sir John Strachey also moved that the Bill as amended be passed.

The motion was put, and agreed to.

ADDITIONAL RATES (PUNJAB) BILL.

The Honourable Sir John Strachey also moved that the report of the Select Committee on the Bill for the levy of additional rates on land in the Punjab be taken into consideration.

The motion was put, and agreed to.

The Honourable Sir John Strachey then moved that the Bill as amended be passed.

His Excellency the President said:—"I have listened with great attention, and, I may add, with great satisfaction, to the comments made to-day upon the Bills which this Council has now passed into law. I do not wish to detain unnecessarily the attention of the Council; but, before I put the last question moved by my honourable colleague, I desire to make a few observations on the origin and objects of the policy embodied in those Bills.

"Now, when this Government undertook the onerous task of effecting, in the revenues of the State, an increase sufficient to enable them to provide an insurance fund for future famines, I certainly could not have ventured to hope that the measures which, under the experienced guidance of my honourable friend and colleague, Sir J. Strachey, we prepared for that purpose, would have been discussed so generously, and received so favourably, as they have been, by this Council, and by all classes of the community represented in this Council. Those measures I can honestly affirm to be, at least, the result of long and anxious deliberation, guided by a scrupulous study of the social interests affected by them, and animated by a most earnest desire not consciously to add one unnecessary fraction to the existing burdens of the community. But taxation is an instrument which painfully resembles that of the dentist. Resort to it is, unfortunately, often necessary; but it is never pleasant to the patient, even though it may promise him relief from acute distress; and the operator is fortunate if his fingers be not bitten by the teeth he is called upon to extract. In the present case, although we have endeavoured to inflict as little pain as possible in the performance of an unavoidable operation, we were not unprepared for a little natural shrieking. But the success of the operation has been largely due to the admirable behaviour of the patient; and, on behalf of our present measures, I feel bound to express the thanks of the Government, first of all, to those local administrations on whose valued co-operation our whole financial policy is so largely dependent; secondly, to the Press of India, for the discriminating judgment and high public spirit with which it has recognised the difficulties of our position, the sincerity of our good intentions, and the necessity of our present action; thirdly, to those enlightened exponents of native opinion who have generously acknowledged the justice of the principles on which we have based our measures; and, finally, to the members of this honourable Council, for the practical aid they have given to the improvement of those measures in committee, and the moral support with which they have honoured them in their passage through debate.

"Our measures, however, have not been wholly exempt from criticism; but their most adverse critics have been the persons who are least acquainted with the details of them, and none of those critics have favoured us with any practicable proposals in substitution of our own; they have told us, nevertheless, that, if these measures are well received, it is not because they deserve to be well received, but because those who have so received them are not affected by them, and those who are affected by them cannot make themselves heard. In short, to put the case as it is put by one of our censors, we have heaped upon that willing horse, the poorer classes, all the burdens which ought to have been placed upon gayer steeds.

"Now, undoubtedly, the taxes which will come into operation by the passage of the Bills before us must, to be successful, have a wide incidence. But the same condition applies to taxation in all countries, as well as to taxation in India; and in India, where the mass of the population is poor, it is impossible to obtain a large increase of revenue, such as we now require, from any tax which falls mainly on the rich. Vast private fortunes certainly exist in India; but the owners of large fortunes constitute but a very small proportion of the population; and I know of no circumstances which would justify, or any process short of confiscation which could enable the Government of this country to concentrate upon the backs of its few rich subjects the main burden of that taxation which is necessary for the protection and improvement of its many poor ones. The European community in India, non-official as well as official, is a very hard-working, but certainly not a wealthy one; and it was one of the most remarkable facts of the old income tax, that only a comparatively small portion

of the whole revenue obtained by that tax was covered by the upper layer of the schedule.

"My honourable colleague, Sir John Strachey, has already shown that it would be a gross misrepresentation of the present license tax to say that it falls only on the very poor, and that, as a matter of fact, this tax touches no section of the community which can be fairly regarded or rated as other than a well-to-do class, if due regard be had to the known standard of life in India. But then we have been told by some other critics that we ought not to have exempted from the operation of this tax official and professional incomes. Now I will not dwell upon the fact that the continued depreciation in the exchangeable value of silver has already very grievously reduced the incomes of those Government servants who, during the past two years, have been so nobly labouring (many of them at a great sacrifice of health, some of them at the sacrifice of their lives, all of them with a prolonged sacrifice of personal comfort), in aiding the Government to preserve the lives of its subjects from famine. I will not pause to ask whether a further deduction from their pay would be the State's fitting reward to its brave soldiers in that great campaign against so formidable an invader; but, of course, had we decided to tax official incomes, we could not possibly have exempted from taxation professional incomes of all kinds; and, if taxation were extended to professional incomes, where could the extension of it be stayed? At what further point could we have legitimately limited our application of the principle under which income was taxed? There is no conceivable form or source of income, whether derived from land, commerce, investments in public securities, the profits of literature, science, industry, or anything else, which could in that case be fairly exempted from taxation. And thus we should be brought, inexorably brought, to what is really the only practical alternative to our present measures, the revival of the hated income tax.

"Now, no one can acknowledge more readily than I do that a scientifically adjusted tax upon all denominations of income is *prima facie*, wherever such a tax be practically possible, the wisest and fairest distribution of the public burden. The old Indian income tax did not completely fulfil these somewhat ideal requirements. Its incidence was unequal, and its assessment a fruitful source of perennial grievance. But, for my own part, I confess that, had I found it in existence, I think my inclination would have been rather to reform and maintain it at a minimum rate than to abolish it altogether. Science, however, may sometimes prolong the existence of the living; but it is another matter to resuscitate the dead. The income tax was abolished by the administration of my predecessor; and I have no doubt that those who abolished it, and who were in the best position to judge whether the popular opposition to it was well justified, had good grounds for their conclusion that its theoretical merits and ascertained financial convenience were insufficient to compensate the practical social mischief of the general heart-burning with which it was regarded by all classes of the community. Our predecessors, when they abolished the income tax, not appreciating, as we were bound to appreciate them, the great additional burdens likely to be caused by famine, did not provide any other means of meeting financial emergencies, foreseen or unforeseen. Thus, with a depreciated silver standard, which greatly enhances the cost of all liabilities payable in gold, the present administration has been suddenly called upon, not only to pay the heavy bill for two years of unprecedented famine, but also to make pecuniary provision for the insurance of the country against future calamities of a similar character. Now I need hardly point out how much more difficult it is to revive an unpopular impost than to retain it; but I can truly assert that the present Government of India would not for a moment have shrunk from confronting that difficulty, had it not recognised in the measures now before the Council a wiser and a sounder policy. The task we have undertaken, and which we hope to accomplish, is, not to distribute the public burdens according to *doctrinaire* ideas of abstract science or symmetrical perfection, but to provide sufficiently for the present requirements of the State in the manner least provocative of social inconvenience and popular discontent, by distributing the incidence of the burden which has to be imposed, along what is indicated, by the actual circumstances of the country, as the line of least resistance.

"We have felt that the two great classes of the community from whom we could most equitably collect our famine insurance fund are the trading and the agricultural classes. The grounds of this conclusion have been lucidly explained by my honourable friend, Sir John Strachey, and I need not now revert to them. The first step in the taxation requisite for the fulfilment of the obligation imposed upon us was taken last year in the shape of a cess on the agricultural classes of Lower Bengal. This year

it is supplemented in that province by a license tax on the trading classes. In the North-western Provinces the basis was laid last year by a contribution levied from the trading classes; and that contribution will now be supplemented by a cess upon the agricultural classes.

"The necessity of a famine insurance fund, and the duty of the Government to provide such a fund, have been generally acknowledged. But equally general must be, I think, the acknowledgment that, in our selection of the sources of this fund (which are necessarily limited), we could not, with any show of reason or justice, have maintained the agricultural cess in Bengal, had we shrunk from subjecting to a similar obligation the agricultural classes in the other provinces of Northern India. On that point I think the observations of my honourable friend the Lieutenant-Governor of Bengal are quite unanswerable; nor is it less undeniable that, from the same point of view, and for the same reason, we could not justly maintain the license tax upon the trading classes of the other provinces, if we did not impose it also on the trading classes in Lower Bengal.

"I think, then, I may fairly claim for the measures now before the Council at least the modest merit of an equitable distribution of famine charges between the two great classes of the community who are, collectively, best able to bear them, and on whom such charges most reasonably fall. I think that no apology is needed, either to the community at large or to those classes in particular, for our decision not to resort to the revival of the income tax. But one thing I cannot too plainly or positively assert. Had we failed to secure the assent of this Council to our proposed taxes upon trade and landed property, we should have had no choice but to revert to the obnoxious income tax. There is absolutely no alternative that would adequately meet the requirements of the present occasion.

"In speaking of the agricultural cess, I have not alluded to Madras and Bombay, because, as the Council is aware, we have decided not to extend this tax to the two Southern Presidencies. Our reason for that decision has been twofold. In the first place, we considered that, after two years of severe famine, the agricultural classes of Southern India are scarcely in a condition to bear any present increase in their direct contributions to the State; but our second reason for not augmenting the direct taxation of these classes in Bombay and Madras was really our chief reason; and it was that, on altogether other grounds, quite independent of our requirements on account of famine, it had become necessary to increase the salt duties of those presidencies. It thus happens that, in consequence of the steps taken in the prosecution of a great fiscal reform, which has been the continuous aim of the Government of this empire under at least four successive administrations, we have found ourselves justified in relieving the agricultural classes of the two Southern Presidencies from additional taxation which, at a time when other parts of the empire were being subjected to increased burdens, we could not otherwise have foregone.

"Now, here I would ask leave to remind the Council that the taxation of salt is a part of the fiscal system which the British Government inherited from the native rulers of India. The history of our present salt duties is a separate one for each province. Except in one respect, which I will mention immediately, these provincial duties have had no connexion with each other; and hence that irregularity in the rates of them which the Government of India has always desired, and is now endeavouring, to rectify. The only historical connexion between these local salt duties is to be found in the common origin of additions made to them in connexion with the abolition of a mass of most vexatious transit duties with which the whole surface of this empire was formerly covered. Under native rule tolls were taken on all roads and navigable rivers; and, in spite of their irregularity, these early transit duties were probably less harassing to trade than the forms which they subsequently assumed under the regulations of the East India Company; for those regulations added to the original tolls all the refinements and checks of an elaborate customs system. About half a century ago, the Government, recognising the intolerable inconvenience of these multiplied checks upon internal trade, decided to abolish them, and substitute for them higher rates of duty upon salt. This great reform is mainly due to the enlightened advice of Sir Charles Trevelyan, then a member of the Bengal Civil Service. Thus, by the Act of 1837, the salt duty in Bombay was fixed at eight annas per maund, and early in the following year all the transit, or inland customs, duties were abandoned in that presidency. The town dues, trade taxes, and other imposts of a similar nature, were relinquished in 1844; and the Bombay salt duty was again raised to 12 annas per maund. The fiscal result of these reforms was investigated in 1855, and it then appeared that the extinction of the condemned imposts

had involved a loss of revenue amounting to more than $34\frac{1}{2}$ lakhs of rupees, whilst the enhanced duty on salt had yielded only a revenue of less than $21\frac{1}{2}$ lakhs. Thus, on behalf of fiscal reforms in the Bombay Presidency alone, the Government had sacrificed more than $12\frac{3}{4}$ lakhs of rupees. In Madras, the loss of revenue incurred on behalf of the same purpose was still greater. The transit and inland customs duties, which the Act of 1844 abolished in that presidency, had yielded a net revenue of about 31 lakhs of rupees. In abolishing them, the Government raised the price of salt to 1-8 rupee per maund; but, under the orders of the Court of Directors, no more than 1 rupee per maund was levied for many years. This increase in the salt duty yielded less than $9\frac{1}{2}$ lakhs, while the revenue already surrendered had amounted to 31 lakhs. Again, in 1853, the tobacco monopoly in Malabar and Canara was also relinquished; and finally, in 1860, the Government abolished the trade tax, which yielded about 11 lakhs of rupees. Thus the slightly increased salt duty in Madras was accompanied by the surrender of about half a million sterling of revenue.

"I think these facts sufficiently prove that the history of the southern salt duties is not one which the Government of India has any reason to recall with self-reproach. I may add, however, that a similar policy has been pursued in Bengal and the Upper Provinces of India. The Bengal transit duties were abolished by the Act of 1836, and the Bengal salt duty was fixed in the following year at 3-4 rupees per maund. The Act of 1843 abolished all import and export duties on the frontiers of the North-western Provinces, with the exception of the duties on salt, sugar, and cotton; and the cotton import duty was abandoned in 1855; the salt duty in the North-western Provinces having been fixed in 1843 at 2 rupees per maund, with an additional assessment of 1 rupee on all salt passing eastward of Allahabad. The annexation of the Punjab was followed by an increase of the salt duty of that province; but that increase was part of a general measure which extinguished simultaneously all the export, import, transit, and town duties previously levied in the province. It will thus be seen that the present system of comparatively high salt duties in British India is the result of an enlightened and beneficent fiscal policy, which has relieved British India from a multitude of mischievous and vexatious imposts on internal commerce; imposts described by a competent authority as being 'so full of inequalities, and 'anomalies, and complications, that it would be vain to inquire from what objections 'or what abuses they were free.'

"In 1868, Sir George Campbell, then Chief Commissioner of the Central Provinces, strongly advocated the introduction of these principles into the native states of Rájputána. 'Might not the native states,' he said, 'be induced to accept our system 'as, on the whole, the most justifiable; that is, to substitute a high salt duty for all 'internal duties whatever? To some extent the burden would thus fall more exclusively on the poorer of their subjects; but then the system of constantly recurring 'transit duties is so wasteful, and involves a burden so much greater than the net gain 'to the State, that even to the poor the substitution of a high but not excessive salt 'tax, collected cheaply and without vexation at the source of supply, would probably 'be a gain.'

"It is obvious, however, that we cannot carry out such a policy without correcting the inequalities which still unfortunately exist in the local rates of our own salt duty. Now the history of these inequalities deserves attention. I have already pointed out that, excepting their common origin, the present salt duties have no connexion with each other; and I have mentioned the rates of the duty upon salt, under which the present fiscal system was first established in the different provinces. Those rates have subsequently undergone various modifications; which, however, have unfortunately not tended towards their equalisation. In Lower Bengal, the duty of 3-4 rupees per maund was gradually lowered to 2-8 rupees, until in 1859 it was again raised to 3 rupees, and in 1861 to 3-4 rupees, which was the original rate. In the Upper Provinces, the 2 rupees duty was raised in 1859 to 2-8 rupees; and in 1861, when the Government abolished the differential duty on salt passing eastward of Allahabad, the rate for those provinces was raised to 3 rupees per maund. Meanwhile in Madras the original 1 rupee duty, or rather the Government selling price, was gradually doubled. In 1861 it was raised to 1-8 rupee; in 1866 to 1-11 rupee; and in 1869 to 2 rupees; whilst the import duty was kept a few annas lower than the Government selling price. In Bombay, the 12 annas duty was raised in 1859 to 1 rupee; in 1865 to 1-8 rupee; and in 1869 to 1-13 rupee. The fact is, that the improvement which, under British rule, has been effected in the communications between Madras and Bombay, had, at length, made it very desirable to place the salt duty in each of those two presidencies as nearly as possible on the same footing; and, under the

financial administration of Mr. Massey, this policy was adopted, not for the purpose of additional taxation, but of fiscal reform. So long as this country was destitute of railroads, the inconvenience of a salt duty, assessed at different rates in different provinces, was not seriously felt. The cost and difficulty of carriage prevented the lower taxed salts of one province from displacing the higher taxed salts of another; but, when intercommunication had been greatly cheapened and accelerated by steam, then special measures became necessary for redressing or preventing the mischievous effects of these inequalities in the salt duties. Thus, an inland customs line was maintained solely to prevent salt taxed in Bombay at 1-13 rupee per maund from entering Bengal, where the salt duty was levied at 3 rupees and 3-4 rupees per maund; and, when that part of the customs line was abolished in 1874, then other measures were devised for the same purpose, an increased freight or mileage duty being levied on all salt carried by rail from Bombay into the Central Provinces. I need not here refer to the great customs line so frequently and eloquently denounced by my honourable friend, Sir John Strachey, which, still, unfortunately exists for the sole purpose of intercepting, many miles from its sources of supply, the untaxed salt of Rájputána, and prohibiting its entry into British territory. I share the opinion of my honourable friend that the continued maintenance of this line is a great commercial and political scandal; and I sincerely trust that the history of the present administration may be associated with the removal of that scandal. I may mention here that, since the year 1875, the Government of India, always aiming at the eventual abolition of this great salt cordon, has been able to effect a saving of five lákhs of rupees by continuous reductions in the establishment of it. But we could not invite the co-operation of our neighbours on behalf of a great fiscal reform which will, we believe, be ultimately beneficial to the whole empire, if we shrank from simultaneously inviting the co-operation of our own provinces towards the attainment of the same result, even though it should involve some slight intermediate sacrifice on the part of some of them; and the form which such co-operation must necessarily assume is the equalisation of our own salt duty. Now that is a policy which has been for many years, if not pursued, at least proclaimed, by the Government of India. In 1868, when the Madras and Bombay salt duties were only 1-8 rupee per maund, while the salt duty was assessed in Bengal at 3-4 rupees per maund, and in the Upper Provinces at 3 rupees per maund, Lord Lawrence's Government thus addressed the Secretary of State:—

“ ‘We consider,’ said his Excellency in Council, ‘that there can be no justification for maintaining this excessive difference any longer than financial necessity shall require. There is no real reason why the people of Bengal and Northern India should pay a higher salt tax than the people of Madras and Bombay; or why the people of Madras and Bombay should not pay as much as the people of Northern India. The population of Madras,’ he continued, ‘is at least as well off as, and the population of Bombay is even better off than, the population of the Bengal Presidency. The prices of salt in Madras and Bombay are generally lower, cost of production cheaper, and the distance of transit less, than in most other parts of India; and the North-western Provinces, where a high rate prevails, are subjected to particular disadvantage relative to most parts of India, by reason of distance from the source of supply and difficulty of transit; so that the difference of duty ought to be in favour of these provinces, instead of being, as it now is, much against them.’

“ ‘Again, the same Despatch significantly observes that, ‘financially, it is not possible to bring the standard of the Bengal Presidency down to the standard of Madras and Bombay. We ought, however, to give Northern India that relief which it needs, and to which it is justly entitled; and we might reasonably call upon Southern India to bear a somewhat fairer share than it now does of the burden falling on the salt consumption of the country generally.’

“ ‘Finally, Lord Lawrence's Government declared that the equalisation of the salt duties, by raising the rates of Madras and Bombay, and lowering those of Northern India, was an object to be steadily kept in view. In reply to the Despatch from which I have just quoted, the Duke of Argyll, who was then Secretary of State for India, made the following observations:—‘On all grounds of general principle, salt,’ he said, ‘is a perfectly legitimate subject of taxation. It is impossible in any country to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the State, it must be through taxes levied on some articles of universal consumption. If such taxes are fairly adjusted, a larger revenue can thus be raised, not only with less consciousness on the part of the people, but with less real hardship to them, than in any other way whatever. There is no other article in India answering this description, upon which any tax is levied. Salt.

‘ appears to be the only one which at present in that country can occupy the place held in our own financial system by the great articles of consumption from which a large part of the imperial revenue is derived. I am of opinion, therefore, that the salt tax in India must continue to be regarded as a legitimate and important branch of the public revenue.’

“ This Despatch from the Secretary of State was communicated to the Government of Madras, but without any intimation of the wishes of the Government of India in regard to the subject of it. The Government of Madras, however, was at that time administered by a man of rare ability and energy, whose great talents, and quick perception of sound principles, were at all times exerted with the wisdom and loyalty which specially distinguished his administration, in willing harmony with the efforts of the Government of India, on behalf of imperial, as superior to local, interests. I think that my honourable colleague, Sir Alexander Arbuthnot, by whom Lord Napier himself was so ably assisted and loyally supported, will confirm the justice of this tribute, which I feel bound to bear, not merely to the brilliant abilities of Lord Napier and Ettrick, but also to the excellent practical results of that uninterrupted harmony of purpose and action in the relations between the Government of India under the administration of Lord Mayo, and the Government of Madras under the administration of Lord Napier, for which the Supreme Government was indebted to that statesman. Thus, shortly after the communication of the Duke of Argyll’s Despatch to the Government of Madras, Sir J. Strachey was enabled to inform the Legislative Council of this Government, that the question ‘ had been taken up quite spontaneously by Lord Napier, whether the provinces under his administration might not co-operate in the great work of giving the people of less fortunate parts of India an ample supply of salt, equalising the duties, and facilitating the abolition of the inland customs preventive line.’ But it is only fair that I should quote Lord Napier’s own words :— ‘ The Government of this presidency,’ he said (*i.e.*, Government of Madras), ‘ is not asked to make a sacrifice for a revenue interest merely. It is asked to make a sacrifice for the welfare of the greater number of Her Majesty’s subjects, and for the general good of trade.’ The Madras Government consequently proposed to increase the Madras salt duty by three annas at once, and subsequently by two additional annas, should the first increase prove to have been attended with no evil consequences. Then, in 1869, Lord Mayo’s Government, with the concurrence of the Governments of Madras and Bombay, raised the salt duty in those presidencies by five annas per maund, distinctly explaining that this step was not taken merely to increase revenue, but specially to facilitate the equalisation of duties, and the eventual abolition of the inland customs line. And it is satisfactory to find that the increase in the Madras salt duty from 1 rupee to 1-11 rupee per maund was followed by a very considerable increase in the consumption of salt by the population of that presidency.

“ Then we come to the year 1876-77, when the Government of my immediate predecessor, Lord Northbrook, proposed a further increase of three annas per maund in the Madras and Bombay salt duties, unaccompanied by any reduction in the salt duties of Northern India. The Secretary of State apparently attributed this proposal to financial pressure created by a rapid fall in the price of silver ; and he withheld his sanction to it, under the impression that circumstances might prove that the Government of India had exaggerated the probable duration and future intensity of that phenomenon ; in short, that it would be unwise to make a permanent change, to meet what might be a temporary difficulty. Lord Northbrook’s Government explained to the Secretary of State that the chief motive of its proposal had been a desire to effect an approximation towards the equalisation of the salt duties, and the more comprehensive revision of those duties, which it had long regarded as an important financial improvement. It also considered that the measure, if adopted, would have involved important administrative advantages, by enabling the Inland Customs Department to curtail some part of their obstructive line, and it added an expression of its belief that there were very sufficient reasons, both financial and administrative, for carrying out that part of the measure which would have imposed small additions to the tax on salt in Madras and Bombay ; still leaving the salt consumed in Upper India taxed 50 per cent., and the salt consumed in Bengal taxed 60 per cent., higher than the salt consumption in the Southern Presidencies.

“ Finally, during the first year of my own administration, my late colleague, Sir William Muir, just before he resigned his charge of the Financial Department, placed on record a Minute strongly recommending the immediate revival, even in the middle of the financial year, of the above-mentioned proposal to raise the salt duties in Southern India, without lowering the salt duties in Northern India. But in this

Minute Sir William Muir went even further than Lord Northbrook's original proposal. For, whilst, on the one hand, he proposed to raise the salt duties in Madras and Bombay at once to 2-8 rupees per maund, on the other hand, he proposed, instead of lowering the Bengal salt duty, to raise it also by 4 annas per maund; and, in support of these proposals, he appealed to his intimate experience of the people of the North-western Provinces to prove that even a 3 rupee duty does not anywhere press sensibly upon the population.

"Now, I felt unable to adopt the proposals thus urged upon me by Sir William Muir, and I wish to mention why. It has always appeared to me that a substantial increase in the salt duties of Southern India is a perfectly legitimate and even salutary measure; provided only that measure be deliberately adopted, not as a temporary financial expedient for raising revenue at a pinch, but as the integral and necessary part of a well-considered comprehensive plan, which has previously been ascertained to be practicable, for getting rid of all our inland customs lines, equalising the rates of the salt duty in all our provinces, and thus providing the whole population of the empire with a practically unlimited supply of adequately cheap salt. But the proposals of my late colleague fulfilled none of these conditions. I considered that, before calling on the governments of Southern India to make some reasonable sacrifice on behalf of this great fiscal reform, it was incumbent on the Government of India to do what it had hitherto not done, that is to say, to ascertain by negotiation with the native states of Rájputána and Central India whether there was any practical prospect of realising, within a reasonable period of time, the paramount object to which all the present or prospective alterations in the rates of the salt duty in British India should, in my judgment, be subsidiary, namely, the abolition of the inland customs lines. In the next place, I considered that, whenever we raised the salt duties in Southern India, nothing but an overwhelming pressure of financial responsibility ought to prevent us from endeavouring to effect at least some simultaneous reduction in the salt duties of Upper India. In conformity with these principles, the Government of India has, for more than 12 months, been assiduously labouring to carry out a thoroughly sound fiscal reform in the levy of the salt duties.

"I would now ask permission to state to the Council in a general way what we have actually done and what we hope to do in this matter. Our first step was to enter into confidential communication with the native states I have already mentioned, for the purpose of obtaining their acquiescence in our control over the salt sources in their territories, and thus enabling us to tax all salt at the places of production, and so abolish our present barbarous inland customs cordon; upon conditions equitable, and indeed liberal, as regards the financial interests of the native states concerned and the social interests of their subjects. Now, the Council will not expect me to explain the details of these negotiations which have been going on for several months, but I think I am in a position to assure it that at present they are far advanced towards a satisfactory completion. We have approached the native governments with every consideration for their legitimate interests. We have been met by those governments in a friendly and reasonable spirit. We have received from them much valuable information and suggestion, and we have formulated our own proposals in careful accordance with the information and suggestions thus received. The result is that I feel justified in anticipating, at no distant date, the conclusion of arrangements with the great salt-producing states of native India, which, whilst satisfactory to them and to us from a financial point of view, will render possible the introduction of a great fiscal reform generally advantageous to the population of the whole empire. It is evident, however, that, if our negotiations be attended with the success I anticipate, the first question we shall then have to determine on our own behalf will be the duty to be levied on salt at the places of production. Now, until our recent salt measures were adopted, that is to say, only a month ago, the rates of the salt duty levied on British territory surrounding native territory varied from 8 annas per maund in Sind, and 1-13 rupee in Bombay, to 3 rupees per maund in the west and north, by a gradual increase of mileage duties along the south; so that the maximum duty of 3 rupees in the Punjáb was in direct contact with the minimum duty of half a rupee in Sind. Now, I think the Council will perceive at once that, had the recent alteration not been effected in the salt duties of Southern India, it would have been extremely difficult for this Government to decide at what rate Rájputána salt should be taxed at the various places of production, so as to permit the removal of the customs lines without serious loss of revenue to the British Government. If the Bombay rate of rupees 1-13 per maund were adopted, then salt taxed at this rate would, in the absence of the preventive line, pour into the Punjáb, the North-western, and

the Central Provinces of India, displacing in those provinces the salt taxed at 3 rupees per maund. If, on the other hand, the higher rate of 3 rupees were adopted, then Rájputána itself would be flooded with the cheaper salt of Sind and Bombay, and the Rájputána salt industry would be killed. Moreover, whenever the Rájputána State Railway is completed to Ahmadábád, and even perhaps before the completion of that railway, the Runn salt of the Bombay Presidency, a first-class salt, admirably adapted for carriage without waste, would enter and permeate the whole of Northern India now within the customs line, at a cheaper rate than the difference of duty thus wildly ravaging our salt revenue. I venture to maintain, therefore, that an equalisation of the salt duties in British territory surrounding the salt-producing native states is a necessary preliminary to the abolition of the inland customs line; that in the advanced stage of our negotiations with those states it was incumbent on us to lose no time in making an appreciable approach towards the establishment of such an equalisation in our own salt duties; and that no measure adopted for that purpose could practically be confined to the territories I have mentioned. The Madras duty must be on the same level as the Bombay duty, and the duty in Lower Bengal must not be very much higher than the duty in the Upper Provinces; for, otherwise, the dearer salt would be entirely displaced by the cheaper salt, to the great disturbance and injury of trade. Now, I grieve to say that, in the present state of our finances, it was simply impossible for us to lower the rates in Northern India down to the level of the rates in Southern India. Such a measure would have involved the loss of at least $1\frac{1}{2}$ million sterling of revenue. We had, therefore, to choose between raising the rates in Southern India, without making any simultaneous reduction in the rates of Northern India, or making an addition to the rates in Southern India considerably larger than the simultaneous reduction effected in Northern India. It is the last of these two courses that we have now adopted, in the belief that it is the fairest. We have not raised the rates in Southern India without effecting at least some simultaneous reduction in the rates of Northern India; and I assert that this is more than any previous Government of India has done towards the establishment of an equilibrium in the salt duty upon equitable principles, and at a level which, if high in the first instance, will, I trust, be found susceptible of gradual reduction to a minimum uniform rate. We have raised the Madras and Bombay duties to rupees 2-8, that is to say, we have increased them by 11 annas per maund; but we have simultaneously lowered the salt duties in the Upper Provinces of Northern India by 4 annas per maund, and in the Lower Provinces by 2 annas per maund; so that at the present moment the salt duty in the Southern Presidencies stands at rupees 2-8, in Lower Bengal at rupees 3-2, and in the Northern Provinces at rupees 2-12 per maund. I must again remind the Council that we have not made these alterations in the rates of the salt duties, without having first assiduously laboured to secure practical guarantees for the early accomplishment of that great and beneficent object which will, when accomplished, complete the fiscal reform of which these measures are but the necessary preliminaries; and in this respect also I think I am entitled to assert that the present Government of India has done more than any of its predecessors have attempted to do, in furtherance of the fiscal policy which all its predecessors have advocated and proclaimed. The inequalities which still remain in the assessment of the salt duty are sufficiently inconvenient, and it is my earnest hope that the present Government may have an early opportunity of still further approximating the rates in Northern India to the existing rates in Southern India, for we calculate that a uniform rate of rupees 2-8 per maund will give us, with a diminished inconvenience to the trader, and great benefit to the general consumer, about the same revenue as that which we have hitherto realised from the duty at its previous unequal rates. It is true that the present enhancement of the salt duty in Madras and Bombay is calculated to give an increased revenue of 300,000/. But then I must remind the Council that we have not imposed any other form of famine taxation on the agricultural classes of those two presidencies. I cannot too earnestly repeat that our main object in dealing with the salt duties of Madras and Bombay has not been to obtain a larger revenue on the whole than we could have obtained had we left those duties alone, but to facilitate and accelerate the completion of that great fiscal reform to which, under four successive Viceroyalties, the Supreme Government of this empire has long been committed, quite irrespective of all financial exigencies occasioned by famine or other causes. The additional taxation which, on this ground, it was necessary to impose upon Southern India, we have willingly accepted as a justification for exempting the agricultural classes in that part of India from the contribution exacted from the same classes in other parts of India on behalf of famine expenditure.

"In earnest of our sincerity in affirming that our recent alterations of the salt duty have been made, not for revenue but for fiscal purposes, I may again remind the Council that, by reducing the salt duty in Bengal and in Northern India, we have sacrificed 200,000% worth of revenue. Nor should it be forgotten, I think, when we come to consider the practical incidence of the existing salt duties upon the poorer portion of the population, that the extension of railway communication has done much to cheapen the virtual price of salt to the people. For instance, the lines which now connect Bombay with Beypur and Madras on the one side, and Jabalpur and Nágpur on the other, and those which connect Negapatam with Tuticorin, carry salt from the sea coast to the interior at the rate of one anna per maund for about every 50 miles. Thus the carriage of a maund of salt from Madras or Bombay to any intermediate railway station does not now exceed eight annas, which is considerably less than the old cost of carriage by road, and may be fairly reckoned in favour of the consumer against the corresponding increase of duty.

"Similarly, in the Bengal Presidency, the present railroads have placed a great part of the country in immediate communication with the sea coast and internal salt sources, so that, in spite of the continued imposition of comparatively high duties, the development of railway communication has cheapened the price of salt over a great part of the country; and further reductions in the price of salt may consequently be expected from further progress in the development of railway communication.

"But, sincerely as I desire to see the price of salt not only equalised but cheapened throughout India; earnestly as I hope that it may be the privilege of this administration to accelerate the arrival of the day when such a result may be attainable; still I must frankly own that I feel unable to accept the dictum of those who assert that the present salt duties are a grievous burden to the long-suffering back of the poor raiyat. It may be in the power of the Government of India, and I hope indeed it may be in the power of the present Government of India, to lighten that burden, such as it is; but it is my own belief that it will never be in the power of any Government of India to devise a substitute for it, which will weigh less heavily on the poorer classes, or be less sensibly felt by them. A salt tax of 2-8 rupees per maund is a tax of less than three farthings per pound. It would be absurd to represent the pressure of such a tax as oppressive. The manner in which the tax is levied renders the pressure of it almost inappreciable. It is an indirect impost distributed in minute daily instalments over vast masses of population, and in all probability the majority of the millions who pay it are not even conscious of its existence. It is the only obligatory tax imposed by this Government upon the masses, and the total amount of its proceeds, when compared with the numbers from whom it is collected, shows how small is the contribution of each individual.

"The gross estimated revenue of a salt tax assessed at 2-8 rupees per maund is about six millions sterling, and this revenue would be collected from a population of not less than 200,000,000 of consumers. On this point I shall again venture to quote the words of Sir William Muir. 'If,' he said, 'there were any form of indirect taxation which could be brought to bear upon the rich rather than upon the poor, and on the luxuries rather than on the necessities of life, I would at once agree to such a tax, but I know of none that is practicable.' And then, after dwelling on the dissatisfaction occasioned by all attempts to extract national revenue from the wealthier classes by direct taxes specially imposed on those classes, as compared with the ascertained social results of indirect taxation levied on a commodity which is consumed by rich and poor, and equally necessary for all classes in the community, Sir William Muir concludes by this emphatic record of his own experience: 'In the one case,' he says, 'we stir up angry feelings in every class throughout the country; in the other case, we peaceably realise what we require without affecting the contentment and tranquillity of any class.'

"In quoting these words, I do not forget that it is no justification of a bad tax that it is borne without complaint, or even without being perceived by those on whom it really falls. A poison may be fatal, administered in repeated doses, infinitesimally small. All that I desire to point out is, that, so far as objections might arise to the salt tax on the ground of its being unpopular, as we well know it has been in other countries, such a reason for rejecting this form of taxation has no existence in India.

"I trust, then, I have shown that the recent action of the present Government of India in reference to the salt duties of Madras and Bombay is in complete accordance with the consistent, continuous, and repeatedly avowed aim of its predecessors during

the last 10 years and more. I trust I have shown that of the sincerity of its devotion to the prosecution of that aim the present Government of India has given conspicuous proof, by taking for the attainment of it bolder and wider steps than any which have been taken by previous administrations. I trust I have shown that these steps have been taken without deviation from the course prescribed to us by our predecessors. And, if I have succeeded in this endeavour, then I think I am entitled to claim from all who have questioned our policy a complete acquittal from the charge that in what we have done we have sacrificed the interests of the poorer classes to those of the richer, with a view to a mere increase of revenue. The point at which we have now arrived is this. The salt duty in Madras, Bombay, Sind, and the Central Provinces has been equalised at the rate of rupees 2-8 per maund. In the North-western Provinces, Oudh, the Punjab, and Lower Bengal, it still varies between higher rates. The aim of the present Government will be to reduce those higher rates to the level already reached by the salt duties of Southern India. Nor shall we relax our endeavours to cheapen the price of salt throughout the whole empire by improving our means of communication with the sources of supply. I trust that our administration may last long enough to achieve these long-deferred results, and that my honourable friend, Sir John Strachey, may still be a member of it when we attain the promised land to which he first guided our progress, and thus fulfil his eloquent prophecy of the day when the Government of India will have given to the people of India 'the means of obtaining, with the least possible inconvenience, and at the 'cheapest rate consistent with financial necessities, a supply of salt only limited by 'the people's capacity of consumption.' In the meanwhile we must continue, I fear, though animated by hope and free from self-reproach, to adopt the motto suggested by some schoolmaster for the door of a grammar school, and borrowed from that venerable authority, the Eton Latin Grammar—'*Præsens imperfectum, perfectum futurum.*' With the expression of this hope, I now beg to put the question moved by my honourable colleague."

The motion was put, and agreed to.

Enclosure 2 in No. 133.

ACTS IMPOSING NEW TAXES.

ACT No. II. of 1878, passed by the GOVERNOR GENERAL OF INDIA IN COUNCIL.

(Received the assent of the Governor General on the 9th February 1878.)

AN ACT for the licensing of trades and dealings in the Punjab, the North-western Provinces, and Oudh.

WHEREAS, in order to provide means for defraying the public expenditure from time to time incurred and to be incurred for the relief and prevention of famine in British India, it is necessary to effect a permanent increase of the revenue; and it is therefore expedient that persons carrying on trades and dealings in the territories and provinces respectively administered by the Lieutenant-Governor of the Punjab, the Lieutenant-Governor of the North-western Provinces, and the Chief Commissioner of Oudh, should take out licenses and pay for the same; it is hereby enacted as follows:—

1. This Act may be called "The Northern India License Act, 1878."

Short title.

It extends to the territories under the administration of the Lieutenant-Governor of the Punjab, the Lieutenant-Governor of the North-western Provinces, and the Chief Commissioner of Oudh, respectively; but nothing herein contained applies to persons earning their livelihood solely by agriculture.

Local extent.

This Act shall come into force in each of the said territories on such date as the Governor General in Council by notification in the "Gazette of India" directs in this behalf.

Commence-
ment.

2. When this Act comes into force in the territories under the administration of the Lieutenant-Governor of the North-western Provinces, Act No. VIII. of 1877 (for the licensing of certain trades and dealings in the North-western Provinces) shall be repealed.

Repeal of Act
VIII. of 1877.

3. In this Act "collector" means the chief officer in charge of the revenue administration of a district.

"Collector"
defined.

4. Every person who, on or after the first day of April 1878, falls under any of the heads specified in the schedule hereto annexed, and carries on (whether on behalf of

Annual
licenses to be
taken out.

- (himself or any other person) his trade or dealing in any district situate in the said territories, shall take out a license under this Act in such district, and shall pay for the same the annual fee mentioned in such schedule as payable by persons of the class and grade to which he belongs.
5. Such license shall be granted by the collector of such district, and shall be signed by him, or by such officer as he may appoint in this behalf.
6. Every such license shall specify—
- (a) the date of the grant thereof;
 - (b) the name, father's name, caste and trade or dealing of the licensee;
 - (c) the class and grade to which he belongs;
 - (d) the fee paid for the license;
 - (e) the term for which the license shall remain in force, and
 - (f) the place or places within such district where the licensee intends to carry on his trade or dealing during such term;
- and shall be received in evidence as *prima facie* proof of all matters contained therein.
7. Every such license shall have effect in such district only, and shall continue in force from the day of the date thereof till the first day of January next after the date of the grant thereof.
8. Every person to whom any such license has been granted, and who desires to continue to carry on his trade or dealing in such district after the expiration of such license, shall take out a fresh license for that purpose for the following year, to expire on the day appointed in the last preceding section, and shall renew the same so long as he desires to continue to carry on such trade or dealing in such district.
9. As soon as may be after the first day of April 1878, and the first day of January in every subsequent year, the collector shall prepare a list of the persons to be licensed under this Act in his district. Such list shall state—
- (a) the trade or dealing of each of the persons therein named;
 - (b) the class and grade under which he is charged; and
 - (c) the fee to be paid for his license.
- Such list shall be in the language of the district, shall be filed in the office of the collector, and shall be open to public inspection at all reasonable times without any payment.
10. The collector shall, from time to time, determine under which of the classes and grades mentioned in the said schedule every person to whom a license may be granted by him as aforesaid shall be charged, and shall amend the said list accordingly.
- The list or such part or parts thereof as the collector thinks fit shall be published in the principal *muhallas* or *ganjes* of all towns, and in the *chaupál*, or other public place, in all villages concerned, together with a notification that, if any person falling under any of the heads specified in the said schedule, whether he is mentioned in such list or not, continues his trade or dealing in the said district, payment of the fee specified in the list as payable by him, or, when he is not mentioned in such list, of the fee mentioned in the said schedule as payable by persons of the class and grade to which he belongs, must be made by him in the year 1878 within 30 days of such publication, and in each succeeding year before the first day of February.
11. The collector may, by a notice in writing, require the occupier of any house to forward to him a statement in writing signed by such occupier, of the names of all persons residing in such house at the date of the notice and of their respective callings.
12. Any person mentioned in the list referred to in sections nine and ten and objecting to the class or grade under which he is charged may, within 30 days after such publication, or within such further time as the collector may in each case think fit, apply by petition to the collector in order to establish his right to have his name transferred to another class or grade, or altogether removed from the list.
13. The collector shall fix a day for the hearing of the petition, and on the day so fixed, or on such subsequent day as he may from time to time direct, shall hear the same and pass such order thereon as he thinks fit:
- Provided that, if, in his judgment, the petitioner is able to show that the fee which has been charged exceeds two per cent. upon his annual net earnings, such excess shall, for the purposes of section 12, be deemed a valid objection.
14. The collector may, for the purposes of any proceeding under section 13, exercise any of the powers conferred by the code of civil procedure on a civil court for the trial of suits:
- Provided that the collector shall not, in the course of any such proceeding, call for

Officer to grant license.

Particulars to be specified in the license.

Commencement and expiration of license.

Renewal of license.

Collector to prepare annual list of licensees.

Collector to determine class under which licensee is to be charged. Publication of list and notification.

Collector may require list of persons in any house.

Petition of objector.

Hearing of petition.

Collector to exercise powers of a civil court.

any evidence except at the instance of the petitioner, or in order to ascertain the correctness of facts alleged by him.

15. Subject to the control of the local government, the commissioner of revenue of the division may, in his discretion, on the application of any person deeming himself aggrieved by an order passed by the collector under section 13, call for the record of the case, and pass such order thereon as he thinks fit, and such order shall be final.

Revision of order passed under section 13.

16. The collector may in his discretion remit the whole or any part of the fee payable under this Act by any person who has carried on his trade or dealing for a portion of the year only.

Power to remit fee.

17. A person or firm coming under more than one of the designations in the said schedule shall be chargeable only under one of the said designations at the discretion of the collector; and in the case of a firm, payment by any one of the partners shall, for the purposes of this Act, be considered payment by the firm.

Persons carrying on several trades.

18. If, after expiry of the period mentioned in the notification published under section 10, for payment of the fee specified or referred to therein, any person (whether he is or is not mentioned in the said list) carries on his trade or dealing without having taken out a license as required by this Act, he shall be liable, by order of the collector, to pay a fine not exceeding thrice the amount payable by him in respect of such license, exclusive of the amount so payable; and on receipt of such payment the collector shall grant him a license.

Penalty for carrying on business without a license.

19. All sums due under section 18 and all fees payable under this Act or the said Act No. VIII. of 1877 shall be recoverable as if they were arrears of land revenue.

Recovery of sums due under this Act.

But no fees or other sums due under this Act or the said Act No. VIII. of 1877 shall be recoverable by any process whatsoever after the expiry of three months from the last day of the year in respect of which they are payable.

20. Every person holding a license under this Act shall produce and show such license when required so to do by an officer generally or specially empowered in writing by the collector to make such requisition.

License to be produced on demand.

But no person shall be proceeded against for neglect or refusal to produce such license except at the instance of the collector.

Prosecution to be at instance of collector.

21. Courts of wards and receivers and managers appointed by any court in British India shall be chargeable under this Act in respect of any trade or dealing of which the income is officially in their possession or under their control.

Receivers and managers chargeable.

22. When any trustee, guardian, curator, committee or agent is charged under this Act in such capacity, or when any court of wards or receiver or manager appointed by any court is charged under this Act, every person and court so charged may, from time to time, out of the money coming to his or its possession as such trustee, guardian, curator, committee, or agent, or as such court of wards, receiver, or manager, retain so much as is sufficient to pay the fee charged.

Power to retain assessment paid by trustee, &c.

Every such person or court is hereby indemnified for every retention and payment made in pursuance of this Act.

23. The net amount of all fees and penalties paid or recovered under this Act, after deducting the expenses of collection, or such portion of such net amount as the Governor General in Council from time to time directs, shall be applied, in such manner as the Governor General in Council thinks fit, for the purpose of increasing the revenues available for defraying expenditure incurred or to be incurred for the relief and prevention of famine in the territories administered by the local government, or, if the Governor-General in Council so directs, in any other part of British India.

Disposal of fees and penalties.

The residue (if any) of such net amount shall be carried to the credit of the local government.

24. All or any of the powers and duties conferred and imposed by this Act on a collector may, subject to the control and orders of the collector of the district, be exercised and performed by an assistant collector or such other officer as the local government from time to time appoints in this behalf.

Powers of collector under Act may be exercised by other officers.

25. Every person shall be legally bound to furnish information to any officer exercising any of the powers of a collector under this Act when required by him to do so.

Obligation to furnish information to collector.

26. The local government may from time to time, with the previous sanction of the Governor General in Council,—

Power to exempt and make rules.

(a) exempt any portion of the territories administered by such Government, or any persons or class of persons in such territories, from the operation of this Act, and cancel such exemption;

- (b) exempt from the operation of this Act any persons whose respective net annual earnings are less than such sum as the local government may from time to time fix in this behalf, and cancel such exemption ;
- (c) make rules consistent with this Act, (1) for regulating the time and manner of collecting the fees charged under this Act, (2) for providing in any case or class of cases for serving notices on persons charged under this Act, (3) for determining the mode in which persons belonging to any class shall be distributed into grades, and (4) generally for the guidance of officers in matters connected with the enforcement of this Act.

THE SCHEDULE.—See section 4.

CLASS I.

Companies registered under the Indian Companies Act,									
1866	-	-	-	-	-				Fee payable by licensee.
Bankers	-	-	-	-	-				Rs.
Professional money lenders	-	-	-	-	-				
Owners of cotton screws	-	-	-	-	-	First grade	-	500	
Persons keeping shops for the sale of European goods	-	-	-	-	-	Second grade	-	200	
Hotel keepers	-	-	-	-	-	Third grade	-	150	
Wholesale dealers	-	-	-	-	-	Fourth grade	-	100	
Dealers in precious stones	-	-	-	-	-				
Sugar manufacturers or refiners	-	-	-	-	-				
Indigo manufacturers	-	-	-	-	-				
Tea manufacturers	-	-	-	-	-				

CLASS II.

Cloth sellers	-	-	-	-
Metal vessel sellers	-	-	-	-
Fuel sellers (talwālas)	-	-	-	-
Chaudhris	-	-	-	-
Letters-out of conveyances and cattle	-	-	-	-
Contractors (thikadars)	-	-	-	-
Printers and publishers	-	-	-	-
Manufacturers of lac	-	-	-	-
Commission agents	-	-	-	-
Brokers	-	-	-	-
Bill brokers	-	-	-	-
Pawnbrokers	-	-	-	-
Money changers	-	-	-	-
Dealers in gold and silver lace	-	-	-	-
Druggists	-	-	-	-
Harness makers	-	-	-	-
Dealers in metals, not being merely artisans	-	-	-	-
Grain lenders	-	-	-	-
Retail dealers in grain	-	-	-	-
Auctioneers	-	-	-	-
Coach builders	-	-	-	-
Tobacco sellers	-	-	-	-
Dealers in horses, cattle, or elephants	-	-	-	-
Timber merchants	-	-	-	-
Woollen manufacturers	-	-	-	-
Silk ditto	-	-	-	-
Persons carrying on trades and dealings specified in Class I. whose annual earnings are not so large as to warrant their assessment in that class	-	-	-	-

	Rs.
First grade -	75
Second grade -	50
Third grade -	25
Fourth grade :	10

CLASS III.

Artisans, traders, and dealers not above specified	}	First grade	-	-	Rs. 5
Persons falling under any head mentioned in Class I. or					
Class II., and whose annual earnings are not so large					
as to warrant their assessment in either of those					
classes		Second grade	-	-	2
		Third grade	-	-	1

Enclosure 3 in No. 133.

Act No. III. of 1878, passed by the GOVERNOR GENERAL OF INDIA IN COUNCIL.

(Received the assent of the Governor General on the 9th February 1878.)

AN ACT to amend the law relating to the levy of rates on land in the North-western Provinces.

WHEREAS, in order to defray the expenditure incurred and to be incurred for the relief and prevention of famine, it is necessary to make a permanent increase in the annual revenues, and it is accordingly expedient to provide in the territories administered by the Lieutenant-Governor of the North-western Provinces, for the levy on land of rates in addition to those now applied to local purposes; and whereas it is therefore expedient to repeal the North-western Provinces Local Rates Act, 1871, and Act No. VII. of 1877, and to re-enact them with the amendments herein-after appearing; it is hereby enacted as follows:—

Preamble.

I.—Preliminary.

1. This Act may be called "The North-western Provinces Local Rates Act, 1878:"

Short title.

It extends only to the territories administered by the Lieutenant-Governor of the North-western Provinces;

Extent.

and it shall come into force on such date as the Governor General in Council, by notification in the "Gazette of India," directs.

Commencement.

2. On and from such date the North-western Provinces Local Rates Act, 1871, and Act No. VII. of 1877 (to amend the law relating to assignments from the General Provincial Fund established under the North-western Provinces Local Rates Act, 1871), shall be repealed. But all rates imposed, rules prescribed, allotments made, committees appointed, powers conferred, and notifications published, under the former Act shall be deemed to have been respectively imposed, prescribed, made, appointed, conferred, and published hereunder.

Repeal of Acts XVIII. of 1871 and VII. of 1877.

3. In this Act—

Interpretation clause.

"Commissioner" means the chief officer in charge of the revenue administration of a division;

"Collector" means the chief officer in charge of the revenue administration of a district;

"Land" means land used for agricultural purposes, or waste land which is culturable;

"Tenant" means any person using or occupying land, and liable to pay or deliver rent therefor;

"Landlord" means the person responsible for the payment of the Government land revenue, if any, assessed on an estate, and includes a muáfídár, nazránádár, or other person holding land whereof the revenue has either wholly or in part been released, compounded for, redeemed, or assigned;

"Estate" means all or any part of a village separately assessed to the land revenue, or separately exempt from the payment thereof;

"Year" means the year commencing on the first day of April.

II.—Rates on Land in Districts of which the Settlement is liable to Revision.

4. Every estate situate in any district in which the term of the settlement of the land revenue made under Regulation IX. of 1833 has expired shall be liable to the payment of such rate, not exceeding 5 per cent. on its annual value, as the Lieutenant-Governor from time to time imposes.

Rate on estates where the settlement has expired.

Such rate shall be paid by the landlord independently of, and in addition to, any land revenue assessed on the estate:

Provided that, in estates in which before the passing of this Act provisional engagements have been taken from the landlord for the payment of the land revenue and cesses in one consolidated sum, and in which it appears to the Lieutenant-Governor inexpedient to cancel such engagements, one-eleventh part of such sum shall be deducted on account of such cesses, and shall be treated in all respects as if it were a portion of a rate levied under the former part of this section.

Every estate situate in a district of which the land revenue is liable to periodical revision shall be liable, in addition to any rates levied under the foregoing portion of

Further rate.

this section, to the payment of such further rate not exceeding 1 per cent. on its annual value as the Lieutenant-Governor from time to time imposes.

Such further rate shall be paid by the landlord independently of and in addition to any land revenue assessed on the estate.

“Annual value” means as follows:—

- (1.) In cases in which the settlement of the land revenue is liable to periodical revision, it means double the amount of the land revenue for the time being assessed on an estate;
- (2.) In cases in which such settlement is not liable to such revision, or in which the land revenue has been wholly or in part released, compounded for, redeemed or assigned, it means double the amount which, if the settlement were liable to such revision, would be assessable as land revenue on the estate.

III.—Rates on Land in Estates of which the Land Revenue is not liable to periodical Revision.

Rate on estates where revenue is not periodically revised.

5. Every estate situated in a district of which the land revenue is not liable to periodical revision shall be liable to the payment of such rate as the Lieutenant-Governor from time to time imposes, not exceeding two annas for each acre under cultivation, or which has been cultivated within the three years next before the assessment of the rate.

Further rate.

The Lieutenant-Governor may from time to time impose upon any such estate, in addition to any rate imposed under the first clause of this section, a further rate of such amount not exceeding half an anna for each acre as aforesaid as he thinks fit.

Rate to be paid by landlord.

6. The rate or further rate shall be paid by the landlord independently of, and in addition to, any land revenue assessed on the estate, and in addition to the cess levied now on account of roads.

Lieutenant-Governor to prescribe rules for ascertaining area of assessable land. Landlord's right to recover half rate from tenants.

7. The Lieutenant-Governor shall from time to time as occasion requires make rules for ascertaining the area of the land assessable under section five.

8. The landlord may recover from every tenant of land on which such rate or further rate has been assessed, and for the payment of which the landlord is liable, an amount equal to one half of the rate or further rate assessed on the land held by such tenant.

Power to make rules as to when a landlord may recover rates from tenants holding at fixed or beneficial rates.

9. The Lieutenant-Governor may from time to time make rules consistent with this Act for determining the cases in which a landlord shall be entitled to recover from tenants holding at fixed or beneficial rates of rent the whole or any portion of the rate or further rate assessed on the land held by such tenants.

Rates to be carried to general fund.

IV.—Manner in which the Rates are to be expended.

10. The amount standing at the credit of the fund constituted under section nine of the said North-western Provinces Local Rates Act, 1871, at the time this Act comes into force, and the proceeds of all rates imposed under this Act, shall be carried to the credit of a general provincial fund.

Appropriation for increasing revenue available for famine purposes.

11. (a.) From such fund the Lieutenant-Governor shall in each year appropriate in such manner as the Governor General in Council from time to time directs such amount, not exceeding the proceeds of the further rates assessed in such year under sections four and five, as the Governor General in Council may direct, for the purpose of increasing the revenues available for defraying expenditure incurred or to be incurred for the relief and prevention of famine in the said territories, or if the Governor General in Council so directs in any other part of British India.

Assignment for canals and railways.

(b.) The Lieutenant-Governor may from time to time assign from such fund such amount as he thinks fit, to be applied in payment of charges incurred or to be incurred on account of such canals and railways as he, with the previous sanction of the Governor General in Council, may declare to be works of general provincial utility:

Provided that the amounts so assigned in any year shall not exceed one-tenth of the proceeds of the rates assessed in such year under the first clause of section four and the first clause of section five;

Allotment for local improvements.

(c.) Subject to the appropriation directed by clause (a), the Lieutenant-Governor shall from time to time allot from such fund such amounts as he thinks fit, to be applied in each district for expenditure on all or any of the following purposes:—

- (1.) The construction, repair, and maintenance of roads and other means of communication;

- (2.) The maintenance of the rural police and district-post;
- (3.) The construction and repair of school-houses, the maintenance and inspection of schools, the training of teachers, and the establishment of scholarships;
- (4.) The construction and repair of hospitals, dispensaries, lunatic asylums, markets, wells, and tanks; the payment of all charges connected with the purposes for which such buildings or works have been constructed, and any other local works likely to promote the public health, comfort, or convenience:

Provided that the amounts so allotted in any year for any district shall not be less than nine-tenths of the proceeds of the rates assessed under the first clause of section four and the first clause of section five in such district in such year.

12. In the case of works which benefit more districts than one, the local government may determine what proportion of the expense of the work shall be borne by each of the districts benefited thereby, and such proportion shall be payable out of the allotments made as aforesaid to such districts respectively.

Works benefiting several districts.

13. Any portion of such allotment remaining unexpended at the end of the year in which the allotment was made may, at the discretion of the Lieutenant-Governor, be re-allotted for expenditure in the same district, or may be applied for the benefit of the North-western Provinces, in such manner as the Lieutenant-Governor from time to time directs.

Unexpended portion of assignment.

14. Accounts of the receipts in respect of all rates levied under this Act, and of the receipts and expenditure of such allotment, shall be kept in each district. Such accounts shall, at all reasonable times, be open to the inspection of the local committee herein-after mentioned. An abstract of such accounts shall be prepared annually in English and in the vernacular language of the district, and shall be open at all reasonable times to public inspection at suitable places within the district without the payment of any fee.

Accounts to be kept.

An abstract of such accounts shall also be published annually in the local Gazette.

15. The local government shall appoint in each district a committee, consisting of not less than six persons, for the purpose of determining how the allotment mentioned in section 11 shall be applied, and in the supervision and control of such allotment:

Local committees.

Provided that not less than one half of the members of such committee shall be persons not in the service of Government, and owning or occupying land in the district or residing therein.

The Lieutenant-Governor shall from time to time prescribe the manner in which the members of such committee shall be appointed or removed, and shall define the functions and authority of such committee.

V.—Miscellaneous.

16. Suits for the recovery from co-sharers, tenants, or others, of any sum on account of any rate imposed under this Act, and all suits on account of illegal exaction of such rate, or for the settlement of accounts, shall be cognisable by the collector as if such suits had been included among the suits mentioned in section 23 of Act No. X. of 1859 and in section one of Act No. XIV. of 1863; and appeals from decisions in such suits shall be cognisable in accordance with the provisions of Act No. X. of 1859 and Act No. XIV. of 1863.

Suits under Act cognisable by collector.

17. In matters connected with the assessment and collection of any sum leviable under this Act, an appeal shall lie to the commissioner from the order of the collector, provided that such appeal be presented within 30 days from the date of the order.

Limitation of appeals.

The Commissioner's decision on such appeal shall be final; but all such decisions may be reviewed by the board of revenue.

18. The Lieutenant-Governor may invest any officer subordinate to a collector with all or any of the powers of a collector for the purposes of this Act.

Power to invest subordinate officers with powers of collector.

The orders passed by any officer so invested shall be subject to revision by the collector of the district.

19. All sums due on account of any rate imposed under this Act shall be recoverable as if they were arrears of land revenue due on the land on account of which the rate is payable.

Recovery of rates.

20. The Lieutenant-Governor may by notification from time to time—

- (a) prescribe by what instalments and at what times such rate shall be payable, and by whom it shall be assessed, collected, and paid;
- (b) make rules consistent with this Act for the guidance of officers in matters connected with its enforcement;

Supplementary powers of local government.

- (c) exempt any portion of the territories under his government from the operation of this Act, or exempt any estate from liability to pay the whole or any part of any rate under this Act, and cancel such exemptions ;
 (d) direct fresh measurements and vary the assessment accordingly.
 Every notification under this section shall be published in the local Gazette.

Enclosure 4 in No. 133.

ACT No. IV. of 1878, passed by the GOVERNOR GENERAL OF INDIA IN COUNCIL.
 (Received the assent of the Governor General on the 9th February 1878.)

AN ACT to amend the law relating to the levy of rates on land in Oudh.

Preamble.

WHEREAS, in order to defray the expenditure incurred and to be incurred for the relief and prevention of famine, it is necessary to make a permanent increase to the annual revenues ; and it is accordingly expedient to provide, in the territories administered by the Chief Commissioner of Oudh, for the levy on land of rates in addition to those now applied to local purposes :

And whereas it is also expedient to empower the said Chief Commissioner to provide for the payment of certain charges incurred or to be incurred on account of canals and railways :

And whereas it is therefore expedient to repeal the Oudh Local Rates Act, and to re-enact it with the amendments herein-after appearing :

It is hereby enacted as follows :—

Short title.

1. This Act may be called "The Oudh Local Rates Act, 1878 :"

Local extent.

It extends only to the territories administered by the Chief Commissioner of Oudh ;

Commence-
ment.

And it shall come into force on such date as the Governor General in Council by notification in the "Gazette of India" directs.

Repeal of Act
XVII. of 1871.

2. On and from such date, Act No. XVII. of 1871 (to provide for the levy of rates on land in Oudh) shall be repealed. But all rates imposed, committees appointed, and notifications published, under the said Act, shall be deemed to have been respectively imposed, appointed, and published under this Act.

And all assignments made under section 10 of the said Act shall be deemed to be allotments made under this Act.

Interpretation
clause.

3. In this Act—

"Land."

"Land" means land assessed to the land revenue, and includes land whereof the land revenue has been wholly or in part released, compounded for, redeemed, or assigned :

"Landholder."

"Landholder" means the person in receipt of the rent of any land, and responsible for the payment of the land revenue, if any, assessed on the estate. It also includes a muáfidár or other person holding land, the land revenue of which has been wholly or in part released, compounded for, redeemed or assigned :

"Estate."

"Estate" means all or any part of a village separately assessed to the land revenue, or separately exempted from payment thereof ; and

"Annual
value."

"Annual value" means—

(1.) Where the settlement of the land revenue is liable to periodical revision—double the amount of the land revenue assessed on an estate ;

(2.) Where such settlement is not liable to periodical revision, or where the land revenue or a portion thereof has been released, compounded for, redeemed, or assigned—double the amount which, if the settlement were liable to periodical revision, would, but for such non-liability, release, composition, redemption, or assignment, have been assessed as land revenue on the estate :

"Year."

"Year" means the year commencing on the 1st day of April.

Rates asses-
sable.

4. The Chief Commissioner may impose on every estate a rate not exceeding $2\frac{1}{4}$ per cent. on its annual value. Such rate shall be payable annually by the landholder, independently of, and in addition to, any land revenue for the time being assessed on the estate, and any local cesses now leviable therefrom.

Recovery of
rates.

5. All sums due on account of any rate imposed under this Act shall be recoverable as if they were arrears of land revenue due in respect of the land on account of which the rate is payable.

6. Every landholder may recover from his co-sharers or pattidárs, if any, a share of any such rate bearing the same proportion to the whole rate that the annual value of the share of such co-sharer or pattidár, recorded at the time of the settlement, bears to the annual value of the whole estate. Power to recover contribution.

7. Whenever any such rate is charged on a landholder on account of land in the use or occupation of an under-proprietor or permanent lessee, or of a tenant with right of occupancy, whose rent has been fixed or recorded by a competent court, such landholder may realise from such under-proprietor, lessee, or tenant a share of the rate bearing the same proportion to the whole rate that the share of such under-proprietor, lessee, or tenant, in the annual value of the land on which the rate is charged, bears to half the annual value of such land. Rate on and in the occupation of an under-proprietor or permanent lessee.

8. Suits for the recovery from co-sharers, under-proprietors, permanent lessees, or tenants as aforesaid, of any sum on account of any such rate, and all suits on account of illegal exaction of such rate, or for the settlement of accounts, shall be cognisable by the courts of revenue in Oudh : Jurisdiction over suits as to rates.

And the provisions of the Oudh Rent Act (No. XIX. of 1868), chapters VII., VIII., and IX., as to similar classes of suits, shall apply to the suits mentioned in the former part of this section.

9. An appeal shall lie to the Commissioner from the order of any person authorised, under the power herein-after conferred, to make assessments, in any matter connected with the assessment of any sum leviable under this Act : provided that such appeal be presented within 30 days from the date of the order. Appeal to commissioner.

The decision of the Commissioner on such appeal shall be final ; but all such decisions may be reviewed by the Chief Commissioner.

10. The amount standing at the credit of the fund constituted under section 9 of the said Act No. XVII. of 1871 at the time this Act comes into force, and the proceeds of all rates imposed under this Act, shall be carried to the credit of a general provincial fund. General fund.

11. (a.) From such fund the Chief Commissioner shall in each year appropriate, in such manner as the Governor General in Council from time to time directs, such amount, not exceeding four-ninths of the proceeds of the rate assessed in such year under this Act, as the Governor General in Council may direct, for the purpose of increasing the revenues available for defraying expenditure incurred or to be incurred for the relief and prevention of famine in the said territories, or if the Governor General in Council so directs, in any other part of British India. Appropriation for increasing revenues available for famine purposes.

(b.) The Chief Commissioner may, from time to time, with the previous sanction of the Governor General in Council, assign from such fund such amount as he thinks fit, to be applied in payment of charges incurred or to be incurred on account of such canals and railways as he may declare to be works of general provincial utility : Assignment for canals and railways.

Provided that the amounts so assigned in any year shall not exceed one-eighteenth of the proceeds of the rates assessed in such year.

(c.) Subject to such appropriation, the Chief Commissioner shall from time to time allot from the said fund such amounts as he thinks fit, to be applied in each district for expenditure on all or any of the following purposes :— Allotment for local improvements.

(1.) The construction, repair, and maintenance of roads and other means of communication :

(2.) The construction and repair of school-houses, the maintenance and inspection of schools, the training of teachers, and the establishment of scholarships :

(3.) The construction and repair of hospitals, dispensaries, lunatic asylums, markets, wells, and tanks ; the payment of all charges connected with the purposes for which such buildings or works have been constructed, and any other local works and undertakings of public utility likely to promote the public health, comfort, or convenience :

Provided that the amounts so allotted in any year for any district shall not be less than one half of the proceeds of the rate assessed in such district in such year.

12. Any portion of such allotment remaining unexpended at the end of the year in which the allotment was made may, at the discretion of the Chief Commissioner, be re-allotted for expenditure in the same district, or may be applied for the benefit of the Province of Oudh in such manner as the Chief Commissioner from time to time directs. Unexpended portion of allotment.

13. Accounts of the receipts in respect of all rates levied under this Act, and of the receipts and expenditure of the allotment made under section 11, shall be kept in each district. Accounts of receipts.

Such accounts shall, at all reasonable times, be open to the inspection of the local committee herein-after mentioned.

An abstract of such accounts shall be prepared annually in English and in the vernacular language of the district, and shall be open, at all reasonable times, to public inspection at suitable places within the district without the payment of any fee.

An abstract of such accounts shall also be published annually in the local Gazette.

Appointment
of committees.

14. The Chief Commissioner shall appoint, in each district, a committee, consisting of not less than six persons, for the purpose of assisting in determining how the amount allotted under section 11 shall be applied, and in the supervision and control of the expenditure of such amount:

Provided that not less than one-half of the members of such committee shall be persons not in the service of Government, and owning or occupying land in the district, or residing therein.

The Chief Commissioner may from time to time prescribe the manner in which the members of such committee shall be appointed or removed, and shall define the functions and authority of such committee.

Power to make
supplementary
rules.

15. The Chief Commissioner may, by notification, from time to time—

- (a) prescribe by what instalments and at what times any rate imposed under this Act shall be payable, and by whom it shall be assessed, collected, and paid;
- (b) make rules consistent with this Act for the guidance of officers in matters connected with its enforcement;
- (c) exempt any portion of the territories under his administration from the operation of this Act, and cancel such exemption.

Every notification under this section shall be published in the local Gazette.

Enclosure 5 in No. 133.

ACT No. V. of 1878, passed by the GOVERNOR GENERAL OF INDIA IN COUNCIL.

(Received the assent of the Governor General on the 9th February 1878.)

AN ACT to amend the law relating to the levy of rates on land in the Punjab.

Preamble.

WHEREAS, in order to defray the expenditure incurred and to be incurred for the relief and prevention of famine, it is necessary to make a permanent increase to the annual revenues, and it is accordingly expedient to provide, in the territories administered by the Lieutenant-Governor of the Punjab, for the levy on land of rates in addition to those now applied to local purposes; and whereas it is therefore expedient to repeal the Punjab Local Rates Act, 1871, and to re-enact it with the amendments herein-after appearing; it is hereby enacted as follows:

Short title.

1. This Act may be called "The Punjab Local Rates Act, 1878:"

Local extent.

It extends only to the territories for the time being administered by the Lieutenant-Governor of the Punjab;

Commence-
ment.

And it shall come into force on such date as the Governor General in Council by notification in the "Gazette of India" directs.

Repeal of Act
XX. of 1871.

2. From such date the Punjab Local Rates Act, 1871, shall be repealed. But all rates imposed, sums credited to the local government, committees appointed, and notifications published, under the said Act, shall be deemed to have been respectively imposed, credited, appointed, and published under this Act.

And all assignments made under the said Act shall be deemed to be allotments made under this Act.

Interpretation
clause.

3. In this Act—

"Land."

"Land" means land assessed to the land revenue, and includes land whereof the land revenue has been, wholly or in part, released, compounded for, redeemed or assigned;

"Landholder.

"Landholder" means any person responsible for the payment of the land revenue, if any, assessed on land. It also includes a person holding land, the land revenue of which has been, wholly or in part, released, compounded for, redeemed or assigned;

"Annual
value."

"Annual value" means—

- (1.) Double the land revenue for the time being assessed on any land, whether such assessment be leviable or not;

(2.) And where the land revenue has been permanently assessed, or has been, wholly or in part, compounded for or redeemed—

double the amount which, but for such permanent assessment, composition or redemption, would have been leviable;

“Year” means the year commencing on the first day of April.

“Year.”

4. All land shall be liable to the payment of such rate as the Lieutenant-Governor from time to time directs, not exceeding eight pies for every rupee of its annual value. Rate assess-
able.

Such rate shall be paid by the landholder independently of, and in addition to, any land revenue assessed on land for the land revenue of which he is responsible, and any local cesses now leviable therefrom :

Provided that, wherever the proprietors of any land pay the land revenue in kind to any assignee of revenue or any village headman, such assignee of revenue or village headman shall be responsible for the payment of the said rate, instead of the proprietors, and no demand shall be made by any such assignee or village headman on any such proprietor in respect of the payment of any such rate.

5. Whenever a rate is charged on a landholder in respect of lands held by a tenant with a right of occupancy holding at a favourable rent, such landholder may realise from such tenant a share of the said rate, bearing the same proportion to the whole rate as the excess of the annual value over the rent paid by such tenant bears to half the annual value. Power to re-
cover a share
of rate from
tenant.

6. The proceeds of all rates imposed under this Act shall be carried to the credit of the local government. Rates to be
credited to
local govern-
ment.

7. From the sums so credited the Lieutenant-Governor shall in each year appropriate such amount, not exceeding one-fourth of the total proceeds of the rates assessed in such year, as the Governor General in Council may direct, for the purpose of increasing the revenues available for defraying the expenditure incurred or to be incurred for the relief and prevention of famine in the said territories; or, if the Governor General in Council so directs, in any other part of British India. Appropriation
for increasing
revenues avail-
able for famine
purposes.

Subject to such appropriation, the Lieutenant-Governor shall from time to time allot from the said sums such amount as he thinks fit, to be applied in each district for expenditure on all or any of the following purposes :— Allotment for
local improve-
ments.

(1.) The construction, repair, and maintenance of roads and other means of communication;

(2.) The construction and repair of school-houses, the maintenance and inspection of schools, the training of teachers, and the establishment of scholarships;

(3.) The construction and repair of hospitals, dispensaries, lunatic asylums, wells, and tanks, the payment of all charges connected with the purposes for which such buildings or works have been constructed, the planting and preservation of trees, and any other local works likely to promote the public health, comfort or convenience:

Provided that the amounts so allotted in any year for any district shall not in the aggregate be less than three-fourths of the proceeds of the rate assessed in such district in such year.

8. In the case of works which benefit more districts than one, the Lieutenant-Governor may determine what proportion of the expenses of the work shall be borne by each of the districts benefited thereby, and such proportion shall be payable out of the allotments made as aforesaid to such districts respectively. Works bene-
fitting several
districts.

9. Any portion of such allotment remaining unexpended at the end of the year in which the allotment was made may, at the discretion of the Lieutenant-Governor, be re-allotted for expenditure in the same district, or may be applied for the benefit of the Punjab, to such one or more of the purposes mentioned in the second clause of section seven as the Lieutenant-Governor from time to time directs. Unexpended
portion of
allotment.

10. Accounts of the receipts in respect of all rates levied under this Act and of the allotments made under section seven shall be kept in each district. Accounts to be
kept.

Such accounts shall, at all reasonable times, be open to the inspection of the local committee herein-after mentioned.

An abstract of such accounts shall be prepared annually in English and in the vernacular language of the district, and shall be open, at all reasonable times, to public inspection at suitable places within the district without the payment of any fee.

An abstract of such accounts shall also be published annually in the local Gazette.

11. The Lieutenant-Governor shall appoint, in each district, a committee, consisting of not less than six persons, for the purpose of determining how the amount Local com-
mittees.

allotted under section seven shall be applied, and of supervising and controlling such amount:

Provided that not less than one-third of the members of such committee shall be persons not in the service of Government, and owning or occupying land in the district, or residing therein.

The Lieutenant-Governor shall from time to time prescribe the manner in which the members of such committee shall be appointed or removed, and shall define the functions and authority of such committee.

Suits under
Act cognisable
by courts
having cogni-
sance of suits
for rent.
Appeals,

12. Suits for the recovery from co-sharers, tenants or others, of any sum on account of any rate imposed under this Act, and all suits on account of illegal exaction of such rate, or for the settlement of accounts, shall be cognisable by the courts which, for the time being, have cognisance of suits for rent due on land.

13. In matters connected with the assessment and collection of any sum leviable under this Act, an appeal shall lie from the order of any person authorised under this Act to make assessments to such person as the Lieutenant-Governor appoints:

Provided that such appeal shall be presented within 30 days from the date of such order.

The order of such person on such appeal shall be final.

Recovery of
rates.

14. All sums due on account of any rate imposed under this Act shall be recoverable as if they were arrears of land revenue due on the land on account of which the rate is payable.

Supplementary
powers of
local govern-
ment.

15. The Lieutenant-Governor may by notification from time to time—

- (a) prescribe by what instalments and at what times such rate shall be payable, and by whom it shall be assessed, collected, and paid;
- (b) appoint the person or class of persons to whom the appeals referred to in section 13 shall lie;
- (c) make rules consistent with this Act for the guidance of officers in matters connected with its enforcement;
- (d) exempt wholly or in part any portions of the territories under his government from the operation of this Act, or exempt any land from liability to pay the whole or any part of any rate under this Act, and cancel such exemption;
- (e) direct fresh measurements and vary the assessment accordingly.

Every notification under this section shall be published in the local Gazette.

No. 134.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, March 1, 1878, No. 11 (Legislative).

IN conformity with the provisions of section xli. of the Indian Councils Act, I have the honour to forward to your Lordship an authentic copy of the law noted in the margin, which has been passed by the Council of the Lieutenant-Governor of Bengal for making laws and regulations, and to which I have signified my assent.

Bill for the licensing of trades, dealings, and industries within the territories subject to the Lieutenant-Governor of Bengal.

Enclosure in No. 134.

ACT No. I. of 1878, passed by the LIEUTENANT-GOVERNOR OF BENGAL IN COUNCIL.

(Received the assent of the Lieutenant-Governor on the 14th February 1878, and of the Governor General on the 24th idem.)

AN ACT for the Licensing of Trades, Dealings, and Industries within the territories subject to the Lieutenant-Governor of Bengal.

Preamble.

WHEREAS, in order to provide means for defraying the public expenditure from time to time incurred and to be incurred for the relief and prevention of famine in British India, it is necessary to effect a permanent increase of the revenue, and it is therefore expedient that persons carrying on trades, dealings, and industries in the territories

administered by the Lieutenant-Governor of Bengal should take out licenses and pay for the same; It is hereby enacted as follows:—

PART I.

Preliminary.

1. This Act may be called “The Bengal License Act, 1878,” and it shall come into force from the date on which it may be published in the “Calcutta Gazette” with the assent of the Governor General.

Short title and commencement.

Parts I., II., and V. of this Act apply to all the territories subject to the Lieutenant-Governor of Bengal, including the town of Calcutta; Part III. applies to all such territories, except the town of Calcutta; and Part IV. applies only to the town of Calcutta.

Application.

2. In this Act, unless there be something repugnant in the subject or context—
“Collector” means the chief officer in charge of the revenue administration of a district.

Interpretation clause.

“Collector.”

“The Commissioners,” except in Part IV., mean the Commissioners defined in Bengal Act V. of 1876, and in Part IV. the Commissioners defined in Bengal Act IV. of 1876.

“The Commissioners.”

“Local government” means the Lieutenant-Governor of Bengal for the time being, or the person acting in that capacity.

“Local government.”

“Section” means a section of this Act.

“Section.”

3. Nothing in this Act shall be deemed to affect the tax on professions, trades, and callings imposed for municipal purposes by Bengal Act IV. of 1876.

Saving of Bengal Act IV., 1876.

4. Nothing in this Act shall be deemed to apply to persons earning their livelihood solely by agriculture, or to any cultivator of land as such in respect of the sale of the produce of his land, when he shall not keep a shop or stall for the sale of such produce, or to any receiver of rent in kind in respect of the sale of produce received as such rent.

Act not to apply to cultivators of land or landlords receiving rent in kind.

PART II.

General Provisions applicable in all Districts.

5. Every person who, on or after the first day of April 1878, falls under any of the heads of the Schedules hereto annexed, and carries on (whether on behalf of himself or any other person) his trade, dealing, or industry in any district situated in the said territories, shall take out a license under this Act in such district, and shall pay for the same the annual fee specified in the same schedules as payable by persons of the class to which he belongs: Provided that no person whose annual earnings from his trade, dealing, or industry carried on within such district are less than 100 rupees shall be required to take out a license under this Act.

Annual licenses to be taken out.

For the purposes of this Act the town of Calcutta shall be deemed to be a separate district.

6. Such license shall be granted by the collector of such district, or by such officer as he may appoint in this behalf; and in Calcutta by the Chairman of the Municipal Commissioners.

Officer to grant license.

7. Every such license shall specify—

Particulars to be specified in the license.

(a.) The date of the grant thereof;

(b.) The name, father's name, residence, caste, if any, and the trade, dealing, or industry of the licensee;

(c.) The fee paid for the license;

(d.) The place or places within such district at which the licensee intends to carry on his trade, dealing, or industry for the ensuing year;

(e.) The term for which such license shall remain in force;

and shall be received in evidence as *prima facie* proof of all matters contained therein.

8. Every such license shall have effect in such district only, and shall continue in force from the day of the date thereof until the first day of April next after the day of the granting thereof.

Commencement and expiration of license.

9. Every person to whom any such license has been granted, and who desires to continue to carry on his trade, dealing, or industry in such district after the expiration thereof, shall take out a fresh license for that purpose for the following year, to expire on the day appointed in the last preceding section, and shall renew the same so long as he desires to carry on such trade, dealing, or industry.

Renewal of license.

PART III.

*Applicable to all Districts except Calcutta.*Collector to
prepare annual
list of licen-
sees.

10. As soon as may be after the commencement of this Act, and the first day of January in every subsequent year, the collector shall prepare a list of the persons in the district aforesaid to be licensed under this Act. Such list shall state—

- (a.) The trade, dealing, or industry of each of the persons therein named;
- (b.) The class and grade under which he is charged; and
- (c.) The fee to be paid for his license.

Such list shall be in such language as the local government may direct, but a copy thereof in the language of the district shall be filed in the office of the collector, and shall be open to public inspection at all reasonable times without any payment.

The local government shall have power to declare what shall, for the purposes of this Act, be deemed to be the language of the district.

Collector may
require list of
persons in any
house.

11. The collector may, by a notice in writing, require the occupier of any house, manufactory, or shop, to forward to him a statement in writing, signed by the occupier, of the names of all persons residing in such house or working in such manufactory or shop, and of their respective trades, dealings, industries, or occupations.

Collector to
determine class
under which
licensee is to
be charged.

12. The collector shall from time to time determine under which of the classes or grades mentioned in Schedule A. hereto annexed every person required to take out a license under this Act shall be charged, and shall prepare or amend the said list accordingly.

Persons carry-
ing on several
trades.

13. A person or firm carrying on several trades, dealings, or industries in the same district, and coming under more than one of the designations in the said schedule, shall be chargeable only under one of the said designations at the discretion of the collector. And, in the case of a firm, payment by any one of the partners shall, for the purposes of this Act, be considered payment by the firm.

Power to remit
fee.

14. The collector may, subject to such rules as the local government may lay down, remit the whole or any part of the fee payable under this Act by any person who may carry on his trade, dealing, or industry for a portion of the year only.

Publication of
list and notifi-
cation.

15. The list, or such part or parts thereof as the collector thinks fit, shall be published in the principal bazars, and at all police stations of all towns, and at all sub-divisional offices, police stations, and outposts in the district, and at some conspicuous place in all villages concerned, together with a notification setting forth the schedule hereto annexed applicable to the district, and directing that, if any person falling under any of the classes specified in the said schedule, whether he is mentioned in such list or not, continues his trade or dealing in the said district, payment of the fee specified in the list as payable by him, or, when he is not mentioned in such list, of the fee mentioned in the said schedule as payable by persons of the class and grade to which he belongs, must be made by him within 60 days of the date of the publication of the notification, and within 60 days next after the first day of April of each succeeding year.

Levy of fees on
artisans and
others in large
works.

16. When a statement in writing has been furnished to the collector under section 11, from which it appears that any person in the employ of any other person, company, or corporation is chargeable with fees under this Act, the collector may require the employer of such person to deduct the amount of his fee from any salary or wages due to such person, and to pay it to the collector on his behalf.

Petition of
objector.

17. Any person mentioned in the list referred to in section 10, and objecting to the class or grade in which he is charged, may within 30 days after its publication, or within such further time as the collector may in each case think fit, apply by petition to the collector in order to establish his right to have his name transferred to another class or grade, or altogether removed from the list.

Hearing of
petition.

18. The collector shall fix a day for the hearing of the petition, and on the day so fixed, or on such subsequent day as he may from time to time direct, shall hear the same and pass such order thereon as he thinks fit.

Provided that, if in the judgment of the collector the petitioner is able to show that the fee which has been charged exceeds 2 per centum upon his annual earnings in his trade, dealing, or industry within the district, such excess shall for the purpose of section 17 be deemed a valid ground of objection, and the collector shall thereupon order the petitioner's name to be transferred to another class or grade, or to be altogether removed from the list. The collector may also on this ground at any time reduce the amount of fee payable by any person under class V. of Schedule A. hereto annexed to the fee payable under class VI.

19. There shall be no appeal from an order of a collector under section 18; but, where the order is passed by any officer subordinate to a collector, an appeal shall lie to the collector, or to some officer specially empowered by the local government in this behalf, whose decision shall be final. Every petition of appeal under this section shall be accompanied by a copy of the order complained of, and be presented within 15 days of the date of such order. In computing the said period of 15 days the day on which the order complained of was made, and the time requisite for obtaining a copy of the same, shall be deducted. Appeals.

20. The collector may for the purpose of enabling him to determine under which of the said classes or grades the petitioner should be charged, summon and enforce the attendance of witnesses and compel them to give evidence, and compel the production of documents, by the same means and as far as possible in the same manner as is provided in the case of a civil court by the code of civil procedure. Power to summon witnesses, &c.

Provided that the collector shall not in the course of any proceedings under this section call for any evidence, except at the instance of the petitioner, or in order to ascertain the correctness of facts alleged by him.

21. If, after expiry of the period mentioned in the notification published under section 15 for payment of the amount specified therein, any person carries on his trade, dealing, or industry without having taken out a license as required by this Act, he shall be liable by order of the collector to pay a fine not exceeding thrice the amount payable by him in respect of such license, exclusive of the amount so payable; and on receipt of such payment the collector shall grant him a license. Penalty for carrying on business without a license.

22. All sums due under section 21, and all fees payable under this Act, shall, where the amount exceeds 50 rupees, be recoverable either as if they were arrears of land revenue, or by distress and sale of the moveable property of the person liable, at the discretion of the collector. In all other cases they shall be recoverable by distress and sale of the moveable property of the person liable. Recovery of fees and penalties.

The provisions of sections 113, 114, 115, and 119 of Bengal Act V. of 1876 shall apply as far as possible to warrants of distress and sale issued by the collector under this section, and no tools or implements of trade or agriculture shall be distrained or sold under any such warrant.

23. No sums due under this Act shall be recoverable by any process of law after the expiry of three months from the last day of the year in respect of which they are payable. Limitation.

24. Every person holding a license under this Act shall produce and show such license when required so to do by an officer generally or specially empowered in writing by the collector to make such requisition. License to be produced on demand.

But, save so far as is provided in section 29, no person shall be proceeded against for neglect or refusal to produce such license except at the instance of the collector. Prosecution to be at instance of collector.

25. Courts of wards and receivers and managers, appointed by any court in British India, shall be chargeable under this Act in respect of any trade, dealing, or industry of which the income is officially in their possession or under their control. Courts of wards, receivers, and managers chargeable.

26. When any trustee, guardian, curator, committee, or agent is charged under this Act in such capacity, or when any court of wards or receiver or manager appointed by any court is charged under this Act, every court and person so charged may from time to time, out of the money coming to its or his possession as such trustee, guardian, curator, committee, or agent, or as such court of wards, receiver, or manager, retain so much as is sufficient to pay the fee charged. Power to trustee, &c. to retain money for payment of fee.

Every such person or court is hereby indemnified for every retention and payment made in pursuance of this Act.

27. The collector may require the Commissioners, and the punchait of any union constituted under Bengal Act V. of 1876, or any village punchait appointed under Bengal Act VI. of 1870, to furnish within a period to be specified under the orders of the local government returns showing the names and numbers of persons chargeable under this Act resident within the limits of their municipality, union, or village, together with the class under which they respectively fall and the fees payable by them respectively. Power to require returns from municipalities.

If the Commissioners or the punchait fail within the period prescribed to make such returns, or if they make such returns and the collector has reason to doubt their accuracy, he may at any time revise the return or cause a return showing the names, numbers, and classes aforesaid to be prepared in such manner as may be prescribed by the local government.

Such return when finally accepted or settled by the collector shall be deemed to be the list referred to in section 10.

Petition of
objection.

On the presentation of a petition of objection under section 17 by any person entered in such list, the collector may either dispose of it himself or may refer it to any officer specially empowered by Government under section 19; or to a bench of not less than three commissioners, whose decision shall be final.

Notice to mu-
nicipalities.

28. When the return mentioned in the last preceding section has been furnished or prepared for any municipality, station, or union, the local government may call upon the commissioners, or may direct the magistrate in the case of a union, to pay to the collector, within a period to be named by the local government, a sum calculated on such return in accordance with the provisions of this Act, after such deduction for necessary expenses as the local government may fix.

Penalties and
fines to be
credited to mu-
nicipal fund.

29. The commissioners and magistrate as aforesaid may take proceedings under sections 21 and 24 for the recovery of any penalties and fines, and shall exercise the powers conferred on a collector by section 24.

All such penalties and fines shall, when so recovered, be credited to the municipal, station, or union fund, as the case may be.

Power of
recovery in
municipalities.

30. The commissioners and the magistrate as aforesaid shall have the same powers of recovering the fees chargeable under this Act within the limits of their municipality, station, or union that they have for the realisation of municipal taxes under Bengal Act V. of 1876. Where the amount due exceeds 50 rupees and it cannot be recovered in the manner above provided, application may be made by the commissioners or magistrate aforesaid to the collector, and the collector shall thereupon proceed to recover it as an arrear of land revenue. The said commissioners or magistrate may also appropriate any part of the revenues of their municipality, station, or union for the payment of any sum leviable from it under section 28; and, if the sum so leviable is not paid at due date, the local government may order it or any part of it to be deducted from any funds standing to the credit of the municipality, station, or union in any government treasury.

Exemption of
licensees from
house cess
under Road
Cess and
Public Works
Acts.

31. No person who pays fees under this Act shall, so long as he continues to pay the same, be liable to pay any instalment of road cess or public works cess on his house under Part IV. of Bengal Act X. of 1871, or section seven of Bengal Act II. of 1877, falling due after the first day of April 1878.

Powers of
collector under
Act may be
exercised by
other officers.

32. All or any of the powers and duties conferred and imposed by this Act on a collector may, subject to the orders of the collector of the district, be exercised and performed by any assistant or deputy collector, or by such other officer as the local government shall from time to time appoint in this behalf.

PART IV.

Special Provisions for the Town of Calcutta.

Special scale
of fees in
Calcutta.

33. From every person who shall within the town of Calcutta exercise any of the trades, dealings, industries, or callings included in the classes specified in Schedule B. hereto annexed, the commissioners shall levy the fees shown in the said schedule, and shall pay to the local government annually a sum to be fixed by such government and calculated on the proceeds of such fees. For the purposes of this Part, any person working or carrying on business in Calcutta shall be deemed to be a resident of Calcutta, and the town of Calcutta shall be deemed to include all places within the local limits of the ordinary original jurisdiction of the High Court of Judicature of Fort William in Bengal, including Fort William itself, the river Hugli within port limits, the Esplanade, and Coolie Bazar, now called Hastings.

Procedure in
Calcutta.

34. The provisions of sections 10, 11, 12, 13, 14, 15, 16, 17, 20, 21, 23, 24, 25, and 26, shall be in force in the town of Calcutta, and all the powers of a collector under the said sections shall be exercised by the chairman of the commissioners, or by some person or persons authorised by him in that behalf.

Petition of
objection.

35. On the presentation of a petition of objection under section 17, the chairman may either himself dispose of it, or may refer it for disposal to a bench of not less than three commissioners. The chairman or any such bench may reduce the amount of fee payable by any person under the said Schedule B. to the fee payable under any lower class or grade of that schedule, on its being shown to his or their satisfaction that the fee charged exceeds two per centum upon the annual earnings of such petitioner in his trade, dealing, or industry carried on within the limits of the said town of Calcutta; and the chairman shall amend the list published under section 15 in accordance with the orders passed upon such petition.

There shall be no appeal from any orders passed under this section.

36. The commissioners shall have the same powers for the recovery of all sums due under this Part that they have for the realisation of municipal rates under Bengal Act IV. of 1876. Recovery of sum due under this Part.

PART V.

Miscellaneous.

37. From the net amount of all fees and penalties paid or recovered under this Act, other than those credited to municipal, station, or union funds under section 29, after deducting the expense of collection, so much as the Governor General in Council from time to time directs shall be applied, in such manner as the Governor General in Council thinks fit, for the purpose of increasing the revenues available for defraying expenditure incurred or to be incurred for the relief and prevention of famine in the territories administered by the local government, or, if the Governor General in Council so directs, in any other part of British India. Disposal of fees and penalties.

The residue (if any) of such net amount shall be carried to the credit of the local government.

38. Every person shall be legally bound to furnish information to any officer or person exercising any of the powers of a collector under this Act when required by him to do so. Obligation to furnish information.

39. The local government may from time to time (a) exempt from the operation of this Act any portion of the territories subject to such government, or any persons or class of persons in such territories, and may (b) make rules consistent with this Act— Power to exempt and make rules.

- (1) for defining more precisely the classes of persons liable under this Act;
- (2) for regulating the time and manner of collecting the fees charged under this Act;
- (3) for reducing the fees chargeable to members of the same family when living and working together;
- (4) for providing in any case or class of cases for serving notices on persons charged under this Act; and
- (5) generally for the guidance of officers in all matters connected with the enforcement of this Act.

SCHEDULE A.

Fees for Licenses applicable throughout the Territories subject to the Lieutenant-Governor of Bengal with the exception of the Town of Calcutta.

Class I.—Every joint-stock company; every banker; every wholesale merchant, dealer, commission agent, or manufacturer; every professional money-lender; every shipowner; and every millowner or screw owner.	Rs.
First grade -	500
Second grade -	200
Class II.—Every person carrying on any trade, dealing, or industry who shall be adjudged by the collector to be a licensee of this class	100
Class III.—Every person carrying on any trade, dealing, or industry who shall be adjudged by the collector to be a licensee of this class	50
Class IV.—Every person carrying on any trade, dealing, or industry who shall be adjudged by the collector to be a licensee of this class	20
Class V.—Every person carrying on any trade, dealing, or industry within any first class municipality, and not charged under any of the foregoing classes, and every other person who shall be adjudged by the collector to be a licensee of this class	5
Class VI.—Every person carrying on any trade, dealing, or industry, and not charged under any of the foregoing classes	
First grade -	2
Second grade -	1

SCHEDULE B.

Fees for Licenses applicable only in the town of Calcutta.

Class I.—Every joint-stock company; every banker, shroff, or banian; every wholesale merchant, dealer, commission agent or manufacturer; every builder; every contractor; every carrying company; every owner or farmer of hauts or bazars; every owner of cotton, jute, hide, or other screws; every shipowner or dockowner, or owner of chowks; and every auctioneer	Rs. First grade - - 500 Second grade - - 200
Class II.—Every broker or dalal employed in the wholesale transfer or purchase of imports or exports, country produce, silk, or other merchandise; every broker or dealer in precious stones, houses, landed property, Government securities, shares, and bills of exchange; every freight broker; every owner or lessee of a theatre or other place of public amusement; and every wholesale bepari	100
Class III.—Every professional accountant; every auditor; every appraiser paid by fees; every surveyor; every millowner; and every person included in Class II. of the third Schedule of Bengal Act IV. of 1876, not charged under Class I. above	50
Class IV.—Every manufacturer of aerated waters; every dealer in gold or silver, or old building materials; every stevedore; and every person included in Class III. of the third Schedule of Bengal Act IV. of 1876, not charged under Class II. above	25
Class V.—Every brazier; every coppersmith; every die sinker; every engraver; every farrier; and every person included in Class IV. of the third Schedule of Bengal Act IV. of 1876	12
Class VI.—Every person carrying on any trade, dealing, or industry not charged under any of the foregoing classes	First grade - - 5 Second grade - - 2 Third grade - - 1

No. 135.

MINUTE by the VICEROY, March 12, 1878.

See Enclosure 3 in No. 2, page 4.

No. 136.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, March 15, 1878, No. 13.
(Legislative.)

IN conformity with the provisions of section xli. of the Indian Councils Act, I have the honour to forward to your Lordship an authentic copy of the law noted in the margin, which has been passed by the Council of the Governor of Bombay for making laws and regulations, and to which I have signified my assent.

Bill for the licensing of trades, dealings, and industries in the Presidency of Bombay.

Enclosure in No. 136.

ACT No. III. of 1878, passed by the GOVERNOR OF BOMBAY IN COUNCIL.

(Received the assent of the Governor of Bombay on the 13th February 1878, and of the Governor-General on the 11th March 1878, and published by the Governor of Bombay on the 19th March 1878.)

AN ACT for the Licensing of Trades, Dealings, and Industries in the Presidency of Bombay.

Preamble.

WHEREAS, in order to provide means for defraying the public expenditure from time to time incurred and to be incurred for the relief and prevention of famine, it is

necessary to effect a permanent increase of the provincial revenue ; and it is therefore expedient that persons carrying on trades, dealings, and industries in the Presidency of Bombay should take out licenses and pay for the same ; it is hereby enacted as follows :—

Preliminary.

1. This Act may be called “The Bombay License Act, 1878.”

Short title.
Extent.

It extends to the whole of the Presidency of Bombay ; but nothing herein contained applies to persons earning their livelihood solely by agriculture.

2. In this Act “collector” means the chief officer in charge of the revenue-administration of a district, and in the city of Bombay the collector of Bombay.

“Collector”
defined.

Licenses.

3. Every person who, on or after the first day of April 1878, falls under any one or more of the heads specified in the Schedule A., and carries on (whether on behalf of himself or any other person) his trade, dealing, or industry, shall take out a license under this Act, and shall pay for the same the annual fee mentioned in Schedule B. as payable by persons of the class to which he shall be determined under the provisions herein-after contained to belong : Provided that no person shall be required to take out more than one license or to pay more than one fee annually.

Annual licenses
to be taken
out.

4. Every license under this Act shall be granted by the collector of the district or place in which the person requiring such license carries on his trade, dealing, or industry : provided that, if such person carries on such trade, dealing, or industry in more than one district or place, the license shall be granted by the collector of the district or place in which his principal place of business is situate.

Officer to grant
license.

Government shall have power to declare, in cases of doubts, what shall for the purposes of this Act be deemed to be such principal place of business.

5. The collector shall from time to time determine under which of the classes mentioned in Schedule B. every person to whom a license may be granted by him as aforesaid shall be charged.

Collector to
determine
class under
which licensee
is to be
charged.

6. Every such license shall specify—

Particulars to
be specified
in the license.

(a) the date of the grant thereof ;

(b) the name, father's name, caste (or, in the case of a firm, the name under which such firm carries on its trade, dealings, or industry), and the trade, dealing, or industry of the person to whom the license is granted ;

(c) the class to which such person belongs ;

(d) the fee paid for the license ;

(e) the place or places where such person intends to carry on his trade, dealing, or industry for the ensuing year ; and

(f) the term for which the license shall remain in force,
and shall be received in evidence as *prima facie* proof of all matters contained therein.

7. Every such license shall have effect and continue in force from the day of the date thereof till the first day of January next after the date of the grant thereof.

Commence-
ment and expi-
ration of
license.
Renewal of
license.

8. Every person to whom any such license has been granted, and who desires to continue to carry on his trade, dealing, or industry after the expiration thereof, shall take out a fresh license for that purpose for the following year, to expire on the day appointed in the last preceding section, and shall renew the same from year to year so long as he desires to continue to carry on such trade, dealing, or industry.

List of Persons to be licensed.

9. As soon as may be after the first day of April 1878 and the first day of January in every subsequent year, the collector shall prepare a list of the persons to be licensed under this Act in the district or place under his jurisdiction. Such list shall state—

Collector to
prepare annual
list of licensees.

(a) the trade, dealing, or industry of each of the persons therein named ;

(b) the class under which he is charged ; and

(c) the fee to be paid for his license.

Such list shall be in such language as Government may direct, but a copy or translation thereof in the language of the district shall be filed in the office of the collector, and shall be open to public inspection at all reasonable times without any payment.

The collector may, if he thinks fit, instead of preparing a fresh list each year, amend the previous year's list, which shall then be taken to be the list for the new year.

Publication of
list and noti-
fication.

10. The list, or such part or parts thereof as the collector thinks fit, shall be published in the principal bazaars, and at all police stations of all towns, and at some conspicuous place in all villages concerned, together with a notification that, if any person mentioned in such list continues his trade, dealing, or industry, he must pay the amount specified in the list as payable by him, and take out a license, in the year 1878 within thirty days of such publication in that year, and within thirty days next after the first day of January in each succeeding year; and that, if any person not mentioned in such list who falls under any of the heads specified in Schedule A. continues his trade, dealing, or industry, he must apply to the collector for a license within the said period, and, in the event of his failing so to do, will be liable to the penalty prescribed in section fifteen.

Hearing of Objections.

Petition of
objector.

11. Any person objecting to the class under which he is charged may, within thirty days after such publication, or within such further time as the collector may in each case think fit, apply by petition to the collector in order to establish his right to have his name transferred to another class, or altogether omitted from the list.

Hearing of
petition.

12. The collector shall fix a day for the hearing of the petition, and on the day so fixed, or on such subsequent day as he may from time to time direct, shall hear the same and pass such order thereon as he thinks fit:

Provided that, if, in his judgment, the petitioner is able to show that the fee which has been charged exceeds two per cent. upon his annual net earnings, he shall transfer his name to another class, or direct that it be altogether omitted from the list, as shall appear to him necessary.

Collector may
summon wit-
nesses, &c.

13. For the purpose of enabling him to determine under which class a petitioner should be charged, the collector may summon and enforce the attendance of witnesses, and compel them to give evidence, and compel the production of documents, by the same means and as far as possible in the same manner as is provided in the case of a civil court by the Code of Civil Procedure:

Provided that the collector shall not call for any evidence except at the instance of the petitioner, or in order to ascertain the correctness of facts alleged by him.

Power to remit
fee.

14. Subject to the general orders of Government, the collector may, in his discretion, remit the whole or any part of the fee payable under this Act by any person who has carried on his trade, dealing, or industry for a portion of the year only.

Penalties.

Penalty for
carrying on
business with-
out a license.

15. If, after expiry of the period mentioned in the notification published under section 10, any person who falls under any of the heads specified in Schedule A. carries on his trade, dealing, or industry without having applied for or taken out a license, he shall be liable by order of the collector to pay a fine not exceeding thrice the amount payable by him in respect of such license, exclusive of the amount so payable; and on receipt of such payment the collector shall grant him a license.

All sums due under this section, and all fees payable under this Act, shall be recoverable as if they were arrears of land revenue.

Penalty for not
producing
license on
demand.

16. Every person required by this Act to take out a license, who, without reasonable excuse, neglects or refuses to produce and show his license when required so to do by an officer generally or specially empowered in writing by the collector to make such requisition, and

Every owner or occupier of a house or shop who without reasonable excuse fails to forward a statement to the collector when required so to do under section 22,

Shall, on conviction before a magistrate, be punished for each such offence with fine, which may extend to 100 rupees.

Prosecution to
be at instance
of collector.

But no person shall be proceeded against for any such neglect, refusal, or failure, except at the instance of the collector.

Miscellaneous.

Receivers and
managers
chargeable.

17. Receivers and managers appointed by any court in British India shall be chargeable under this Act in respect of any trade, dealing, or industry of which the income is officially in their possession or under their control.

18. When any trustee, guardian, administrator, curator, committee, or agent is charged under this Act in such capacity, or when any receiver or manager appointed by any court is charged under this Act, every person so charged may, from time to time, out of the money coming to his possession as such trustee, guardian, administrator, curator, committee, or agent, or as such receiver or manager, retain so much as is sufficient to pay the fee charged.

Power to retain assessment paid by trustee, &c.

Every such person is hereby indemnified for every retention and payment made in pursuance of this Act.

19. All fees and penalties paid or recovered under this Act shall be carried to the credit of the Government of Bombay.

Disposal of fees and penalties.

The net amount so credited shall be applied, in such manner as the Governor-General in Council thinks fit, for the purpose of defraying expenditure incurred or to be incurred for the relief and prevention of famine in any of the territories administered by the said Government, or, if the Governor General in Council so directs, in any other part of British India.

20. All or any of the powers and duties conferred and imposed by this Act on a collector may, subject to the orders of the collector, be exercised and performed by an assistant or deputy collector, or by a mámlatdár or máhálkari, or such other officer as Government from time to time appoints in this behalf.

Powers of collector under Act may be exercised by other officers.

In the city of Bombay the municipal commissioner shall, so far as regards letters-out of conveyances, horses, or cattle, and owners of conveyances, horses, or cattle plying for hire in the said city, exercise all the powers and perform all the duties of the collector under this Act; and shall pay to Government the annual net proceeds of the fees so levied by him: provided that in the case of all such persons in the said city it shall not be necessary to publish a list or notification as required by section 10, and that the fees payable by them may be recovered by the municipal commissioner at the same time or times and in the same manner as any tax payable by them to the municipality is recovered.

Municipal commissioner of Bombay to be a collector for certain purposes.

21. Every person shall be legally bound to furnish information to any officer exercising any of the powers of a collector under this Act when required by him to do so.

Obligation to furnish information to collector.

22. The collector may, by a notice in writing, require the owner or occupier of any house or shop to forward to him a statement in writing, signed by such owner or occupier, of the names of all persons residing in such house or working or having any concern in such shop at the date of the notice and of their respective callings or occupations.

Collector may require list of persons in any house or shop.

23. No order passed by a collector under this Act shall be open to appeal.

No appeal from collector's order.

24. Government may from time to time—

- (a) exempt any local area, or any persons or class of persons, from the operation of this Act;
- (b) exempt from the operation of this Act any persons whose respective net annual earnings are less than such sum as Government may from time to time direct in this behalf;
- (c) make rules consistent with this Act, (1) for defining more precisely the classes of persons named in Schedule A. as liable under this Act; (2) for regulating the time and manner of collecting the fees charged under this Act; (3) for providing in any case or class of cases for serving notices on persons charged under this Act; (4) for modifying the fees chargeable to members of the same family when living and working together; and (5) generally for the guidance of officers in matters connected with the enforcement of this Act.

Power to exempt and make rules.

SCHEDULE A. (See section 3.)

Persons required to take out Licenses under this Act.

Companies registered under the Indian Companies Act, 1866.
Bankers.
Commission agents.
Brokers.
Manufacturers.
Contractors.
Hotel keepers.
Money changers.

Ship or boat owners.

Letters-out of conveyances, horses, or cattle.

Owners of conveyances, horses, or cattle plying for hire.

And all persons carrying on trades, dealings, or industries of any kind whatsoever.

SCHEDULE B. (See section 3.)

Fees payable by persons required to take out Licenses under this Act.

Class	I.	Rs. 200	Class	IX.	Rs. 20
"	II.	" 150	"	X.	" 15
"	III.	" 100	"	XI.	" 10
"	IV.	" 80	"	XII.	" 7
"	V.	" 60	"	XIII.	" 5
"	VI.	" 40	"	XIV.	" 3
"	VII.	" 30	"	XV.	" 2
"	VIII.	" 25			

No. 137.

EXTRACT from the RESOLUTION of the GOVERNMENT OF INDIA, March 18, 1878,
No. 1911 (being the Financial Statement for 1878-79).

14. In the financial statement for 1877-78 made by the Honourable Sir John Strachey on the 15th March 1877, it was shown, as the result of a careful examination of the actual accounts of the revenues and expenditure of the empire during the preceding seven years, that, excluding the cost of famine relief, the Government had just managed to pay its way. Before the commencement of the great famine from which the country has lately been suffering, and the effects of which have even now not entirely passed away, the finances of India might be considered to be in a condition of equilibrium. But for one reason, the financial position would have been satisfactory. The ordinary public expenditure, with the exception of that incurred in England for the army, not only showed no tendency to increase, but, excluding famine relief, it was less in 1875-76 by more than 1,000,000*l.* than it had been seven years before. Excluding loss by exchange, an element altogether beyond our control, the net expenditure during the same period had decreased by 2,254,000*l.* It was shown also that the net revenue of the empire had increased in seven years by more than 2,000,000*l.*, or at the average rate of nearly 300,000*l.* a year. Thus, but for one cause, we might have hoped that no addition to the burdens of the country would be necessary, and that the normal growth of the revenues would have enabled the Government to go on gradually carrying out those measures of fiscal and administrative reform which it felt to be essential to the prosperity and progress of the empire. The cause which rendered nugatory all such anticipations and beliefs was the recognition of the fact that the obligations entailed on the Government by the periodical and inevitable recurrence of famine must be provided for among the ordinary charges of the State.

15. When it was thus admitted that famines must be looked on, not as abnormal or exceptional calamities, but as certain from time to time to recur, it became obvious that sound financial policy obliged the Government to reject altogether the expedient of trusting to borrowing to meet the charges which they entailed, and that it was essential to make such an improvement in the financial position of the Government as would enable it to meet these charges from its ordinary revenue. This could only be done satisfactorily by securing in years of prosperity a substantial surplus of revenue over expenditure, by means of which the Government could meet the charges thrown upon it in years of famine.

16. It was not possible to estimate with any confidence the amount of financial relief which was necessary before the Government could undertake these new burdens, but, for reasons which were explained by the Honourable Sir John Strachey in his speech in the Legislative Council on the 27th December 1877, the Government decided that the yearly average cost of famines in loss of revenue and actual expenditure could not safely be estimated at less than 1,500,000*l.*

17. It was necessary therefore (on account of famine alone) to improve the financial position by that amount. Besides this, it was necessary to provide a margin on the annual estimates of at least 500,000*l.* to meet those contingencies which cannot be foreseen, but to which we must always be liable, and to assist the Government in providing the means of proceeding steadily with the administrative and fiscal improvements which from time to time become necessary.

Thus the conclusion was arrived at, that, when the late famine commenced, or we may say at the beginning of the current year 1877-78, the revenues were deficient to the amount of about 2,000,000*l.* a year.

18. In considering how these additional resources could be supplied, the Government of India anxiously directed its attention in the first instance to the possibility of reducing expenditure. In regard to the civil expenditure, although there are still some branches of the administration for which the charges ought undoubtedly to be diminished, the Government was satisfied that no very great reduction could be hoped for. In the seven years to which reference has been made, the net civil expenditure was reduced by 1,500,000*l.* a year. This fact justifies the Government of India in declaring that the administration of the finances has been conducted with care and economy in the past, and entitles it to claim confidence when it asserts its resolution to exercise similar care and economy in the future.

19. No reduction could be looked for in the charges for productive public works, for, although the receipts from the railways and irrigation works have rapidly increased and the financial results that have been obtained from these great undertakings are, as a whole, satisfactory and encouraging, the Government hopes to push on these useful works even more vigorously in the future than it has done in the past. Thus only can it discharge the responsibility which it has accepted of sparing no efforts which it is possible to make for the purpose of protecting the country against the consequences of drought and famine. Past experience has proved that even from a merely financial point of view it is wise strenuously to persevere in this policy. The burden on the revenues on account of these great works goes on steadily diminishing. During the last 25 years more than 130,000,000*l.* has been spent in India, either directly by the Government or through the guaranteed companies on railways and works of irrigation. In 1876-77 the total net charge for interest on this account was about 1,000,000*l.*, or about 16*s.* per cent. on the capital outlay, an insignificant price to pay for works of such incalculable usefulness. In 1877-78, under circumstances no doubt exceptional, this charge has virtually disappeared. That the policy which the Government has been pursuing in regard to the construction of productive works may, if it be wisely applied, be followed without financial risk, is further illustrated by the fact that the total charge for interest on debt of all sorts and guaranteed railway capital is in the present year less than the charge in 1870-71 by about 2,000,000*l.*

* * * * *

21. The measures taken during the past year for increasing the powers and responsibilities of the local governments, the nature of which was described in the financial statement for 1877-78, will, it is believed, when they are complete, improve the financial position of the Government of India by an annual sum of nearly 400,000*l.* No part of this improvement is due to fresh taxation. It is the result of the administrative changes and improvements to which the policy of decentralization has led. The original measures taken in 1870 by the Government of Lord Mayo had previously led to a saving of 330,000*l.*, and this policy, which has given increased efficiency to almost every branch of the administration, has thus added to the imperial revenues a sum of about 700,000*l.* a year, without the imposition of any fresh burdens on the people. These measures of decentralization have now been more or less completely carried out in Bengal, in the North-western Provinces and Oudh, in the Punjab, the Central Provinces, and in Bombay, and in all cases with the complete approval of the local governments. The only great province in regard to which no satisfactory arrangement has hitherto been found practicable is Madras.

22. After taking credit for the gain of 400,000*l.* just referred to, there remained to be provided a sum of 1,100,000*l.* to complete the amount of 1,500,000*l.* declared necessary to enable the revenues to meet the estimated charges on account of famine. It appeared to the Government that this sum could only be provided by fresh taxation.

23. It is not necessary to repeat here the reasons which led the Government of India to the conclusion that the new taxes necessary for providing an insurance against famine should fall partly on the trading and partly on the agricultural classes. Nor is it necessary to describe again in detail the measures of taxation which have

recently been passed into law. It is sufficient to refer to those measures in general terms.

Pages 265,
276, 282, and
291.

24. The new taxation imposed on the trading classes has taken the form of a license tax on trades and dealings. The Acts passed for the various provinces differ in some of their details, but in all matters of importance they are similar. In those which apply to the provinces of Northern India, the maximum fee chargeable in any case is Rs. 500. The minimum fee is Re. 1. The tax will be imposed on no person whose net earnings are less than Rs. 100 a year, and no person will be called on to pay an amount exceeding 2 per cent. on his annual income. In Bombay the maximum fee has been fixed at Rs. 200. The license tax will be levied throughout India. It is estimated to yield to the Imperial Government about 700,000*l.*, after meeting charges of collection, and allowing a margin to local governments.

25. The tax on the agricultural classes has been imposed in the provinces of Northern India and Bengal alone. It has taken in each province the form of an addition to the existing local rates on land. It is expected to yield about 500,000*l.* a year.

26. Similar additional rates have not been imposed in Madras or Bombay. In order to carry out the long-declared policy of the Government in regard to the equalisation of the salt duties throughout India, an increase to the salt tax in those presidencies became unavoidable. Although, before any thought of imposing new taxation on account of famine had arisen, this increase had been virtually decided upon, and had therefore no connexion with the new measures of famine taxation, the Government of India did not think that it would be right to impose additional direct taxation on the agricultural classes in Madras and Bombay, at the same time that it was increasing the salt duties. No fresh taxation has therefore been imposed in those presidencies on the land.

27. The total amount which the new taxes on the trading and agricultural classes will yield is thus estimated at 1,200,000*l.* The full amount, however, will not be collected in the coming year, because it will not be right to levy the additional rates on land in the North-western Provinces until the country has recovered from the serious loss which it suffered in the almost total failure of the last summer crops.

Page 242.

28. The proceeds of these taxes, together with the sum of 400,000*l.* which will be gained by the extension of provincial responsibility, make up a little more than the 1,500,000*l.* which is annually required for the insurance of the country against famine. The manner in which the Government proposes actually to apply this sum was fully explained by the Hon. Sir John Strachey in his speech in the Legislative Council on the 9th February 1878. This explanation will be found in an Appendix to this resolution. By following the course which is proposed, the Government of India will virtually reduce the public debt by 1,500,000*l.* a year; and resources will be stored up in years of prosperity, by means of which, when famine actually occurs, it will be possible to discharge the heavy obligations which then fall upon the State. By investing in productive public works from the resources thus specially created a sum of 1½ millions yearly, instead of from borrowed money, the charge for interest which would otherwise arise will be saved, while an additional income will be created from the works, which will supply in the future a source from which to meet without increased strain on the finances a corresponding interest payment on any debt which may then be incurred to meet famine charges.

Page 193.

29. When introducing the new measures of taxation, it was explained by Sir John Strachey that, in the opinion of the Government of India, it was necessary that a surplus should be shown on the accounts of each year amounting at least to 2,000,000*l.* Of this 1,500,000*l.* was for insurance against famine; the remaining 500,000*l.* was said to be required as the smallest sum which would enable the Government to meet contingencies, and to furnish, in combination with the natural growth of the revenues, the means of carrying out necessary administrative and fiscal reforms.

30. To provide a portion of this surplus, new taxation was necessary. The new taxes were expected to improve the imperial revenues by 1,100,000*l.* a year. The steps taken towards the equalisation of the salt duties, to be further referred to hereafter, gave temporary relief to the extent of 300,000*l.* The 600,000*l.* required to make up the full amount of 2,000,000*l.* would, it was expected, be provided partly by the new measures of decentralisation, which involved no fresh taxation, and partly by the normal increase of the general revenues.

31. It is important to ascertain how far the estimates for the coming year, which are now published, support the anticipations made by the Government a few months ago.

32. To obtain a true conception of the present financial position, it is first necessary

to eliminate certain disturbing causes. In this view it must be remembered that a sum of 281,000*l.* is shown among the receipts on account of the extinct military funds. This is a merely nominal credit, and it must be deducted in estimating the real amount of our revenues. It must further be remembered that the accounts of the past, of the present, and of the coming year are all much disturbed by the effects of the famine. It is from this cause that in the coming year 1878-79, 671,000*l.* is expected to be received on account of the arrears of the land revenue of past years. Hence, if we look only to the normal facts of the revenue, allowance must be made for these disturbing causes, and the estimated receipts for 1878-79 must be reduced by the aggregate of these two amounts, namely, 952,000*l.*

33. If, after making these allowances, no fiscal changes were now made; if all existing taxes were to remain unaltered; and no provision had to be made for the relief of famine for which 555,000*l.* has actually been granted, the surplus of 2,156,000*l.* as shown in the estimates of the ensuing year would be reduced to 1,991,000*l.* Hence, after providing for the estimated famine expenditure of 555,000*l.*, and allowing 945,000*l.* as expenditure for famine insurance, making together the 1½ millions required, there would still be left a margin of 484,000*l.* Thus there appears to be a deficiency of only 16,000*l.* to be provided, if the ultimate surplus of 500,000*l.* is to be made good from the normal revenues of the year. As regards the ways and means of the coming year, the additional exceptional receipts of arrears of land revenue, amounting to 671,000*l.*, will far more than make good this small deficiency.

34. Thus the Government trusts that it will be able in the ensuing year to fulfil satisfactorily the engagements which it has undertaken and the pledges which it has given. It will be able to provide from its ordinary revenues a sum of 555,000*l.* for the relief of famine, and to devote at least 1,000,000*l.* towards famine insurance; thus the pledge that 1,500,000*l.* shall be set aside from the ordinary revenues for the relief and prevention of famine will be fulfilled. It will indeed be more than fulfilled, for the actual pledge given was not that this amount should always be provided in the estimates of the year, but that it should always be shown to have been applied when the actual accounts of the year were closed.

35. After thus assigning from the revenues of the coming year 1,500,000*l.* on account of famine, there will still be at the disposal of the Government an available surplus of 656,000*l.* for meeting those contingencies, and carrying out those fiscal and other reforms, to which reference has been made.

36. Although it is thus confidently expected that the new taxation will enable the Government to fulfil, in the coming year, its pledge to devote 1,500,000*l.* to the relief and prevention of famine, it is clear that the financial position is not such as to justify at the present time new measures, which would involve considerable reductions in any great branch of the existing revenue. It is true that all those branches of revenues are prosperous, but there are several causes which render caution obligatory on the part of the Government.

37. The extreme pressure of the famine has passed away, but relief operations still continue in a large tract of Southern India, and much suffering still exists among the poorer classes in the North-western Provinces and Oudh. Thus the prospects of the future are not free from anxiety. The state of political affairs in Europe cannot wisely be ignored. Further, although the position of the silver market seems far more hopeful than it was, it is impossible to contemplate without some anxiety an operation of such unexampled magnitude as the remittance from India to England in the ensuing year of 17,000,000*l.*

No. 138.

DESPATCH to the GOVERNMENT OF INDIA, April 1, 1878, No. 104 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Financial Letters, dated the 4th January 1878, Nos. 7 and 8,* reporting measures proposed to be adopted in order to meet the expenditure required for the relief and prevention of famine, and your separate Revenue Letter, dated the 18th January 1878, No. 2,* forwarding copy of a telegram, dated the 11th idem, requesting sanction to the Acts authorising the new taxation recommended by your Government.

* Letter No. 8 (Financial) sent a copy of the Northern India License Tax Bill; and Letter No. 2 (Separate Revenue) sent a copy of the telegram of January 11.

2. You are of opinion that it is necessary to add to your income the full amount of a million and a half sterling per annum, in order to form an insurance fund to make provision for famine expenditure, and you state that 700,000*l.* has been already secured by the measures taken in the earlier part of the present financial year, thus leaving 800,000*l.* to be provided, of which you propose that the land should be required to supply 150,000*l.* only. The remaining sum of 650,000*l.* you expect to obtain from the license tax, in regard to which you have adopted the system of graduated assessments, suggested in my Legislative Despatch No. 55 of 1877, and the maximum rate of which you have raised to Rs. 200.*

3. You calculate that the gain from the modifications in the salt tax, after deducting the loss consequent on the reduction of those duties in the Upper Provinces and in Bengal, will yield 300,000*l.*, and you propose to rely on the normal growth of the income to provide the balance of the surplus of half a million, which you stated in your Financial Letter of the 16th August 1877, No. 246 A., was required for "urgent administrative and fiscal reforms."

4. As regards the application of the million and a half sterling already referred to, you are of opinion that, if, without increasing the "total sum which" you "have been in the habit of spending on reproductive works of late years," you "reduce the sum to be borrowed year by year" by the million and a half sterling raised with a view to the relief and prevention of famine, you "may reasonably expect that the provincial revenues, to which the growing income of the works will be constantly added, will be able to supply the whole sum required to pay interest at the normal rate, say 4 per cent., on the whole of the capital investment, including both that obtained by borrowing, and that taken from the new taxes."

Page 217.

5. By my telegram dated the 12th January last, I sanctioned the new taxation Bills going forward in regular course.

6. It must, however, be borne in mind that, in order to relieve your treasury, my drawings on India during 1877-78 were reduced by nearly six millions below the estimate of January 1877, and that my power of borrowing is almost exhausted. I do not consider that there is any ground for applying to Parliament at present for fresh powers. Under these circumstances it is necessary that, whenever the demand for bills and the state of the exchange will admit, the sum which has been provided from the Home Treasury to meet famine expenditure should be repaid from the million and a half which is to be raised annually on account of famines. And such an arrangement will be strictly in accordance with the rule that all sums required to be obtained on loan for productive public works shall be raised in India.

7. It now only remains for me to confirm the general approval of your proposals which I have already conveyed in the telegram above referred to.

I have, &c.

SALISBURY.

No. 139.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, April 18, 1878, No. 18 (Legislative).

IN conformity with the provisions of section xli. of the Indian Councils Act, I

Act for licensing trades, dealings, and industries in the Presidency of Madras.

have the honour to forward to your Lordship an authentic copy of the law noted in the margin, which has been passed by the Council of the Governor of Madras, for making laws and regulations, and to which I have

signified my assent.

* It appears from the "Calcutta Gazette" of the 6th February 1878, that a Select Committee of the Legislative Council of Bengal has considerably modified the scheme of license tax, as explained by the Lieutenant-Governor of Bengal, in the Legislative Council of the Governor General of India, on the 27th December. Schedule A. of the amended Bill, providing for "a higher grade of license fee of Rs. 500, to supplement the rate of Rs. 200, originally proposed as the maximum," "the rates of fee under classes 3, 4, and 5 being raised to Rs. 50, 20, and 5 respectively, class 7 being struck out, and the definitions of classes 5 and 6 being redrafted, and providing under the last-named class for two grades of fee, Rs. 2 and R. 1."

Enclosure in No. 139.

ACT No. III. of 1878, passed by the GOVERNOR OF FORT ST. GEORGE IN COUNCIL.

(Received the assent of the Governor on the 22nd March 1878, and of the Governor-General on the 11th March 1878, and takes effect from the 13th April 1878.)

AN ACT for licensing trades, dealings, and industries in the Presidency of Madras.

WHEREAS, in order to provide means for defraying the public expenditure from time to time incurred and to be incurred for the relief and prevention of famine in British India, it is necessary to increase the provincial revenue; and it is therefore expedient that persons carrying on trades, dealings, and industries in the Presidency of Madras shall be required to take out licenses and pay for the same; it is hereby enacted as follows:—

Preamble.

Preliminary.

1. This Act may be called "The Madras License Act, 1878."

Short title.

It extends to the whole of the Presidency of Madras, except the districts scheduled under Act XIV. of 1874.

Local extent.

It shall come into force on such date as the Governor in Council by notification in the *Fort St. George Gazette* directs in that behalf.Commence-
ment.

2. Nothing in this Act shall be deemed to affect the tax on arts, professions, trades, and callings imposed for municipal purposes by the Madras Municipal Act, 1867, and the Towns Improvement Act, 1871, or other corresponding laws on the subject for the time being in force.

Saving of the
Madras Mu-
nicipal Acts.

3. Nothing in this Act shall be deemed to apply to persons earning their livelihood solely by agriculture, or to any cultivator of land as such in respect of the sale of the produce of his land, when he shall not keep a shop or stall for the sale of such produce, or to any receiver of rent in kind in respect of the sale of produce received as such rent.

Act not to
apply to culti-
vators of land,
or landlords
receiving rent
in kind.

4. In this Act "collector" means the chief officer in charge of the revenue administration of a district.

"Collector"
defined.*Licenses.*

5. Every person who, on or after the first day of April 1878, carries on (whether on behalf of himself or any other person) any trade, dealing, or industry, and whose annual net earnings or profits exceed 200 rupees, shall apply for and take out a license, and shall pay for the same the annual fee mentioned in the schedule hereto annexed as payable by persons of the class to which he belongs.

Licenses to be
applied for and
taken out.

6. Every license under this Act shall be granted by the collector of the district in which the person requiring such license carries on his trade, dealing, or industry; provided that, if such person carries on such trade, dealing, or industry in more than one district, the license shall be granted by the collector of the district in which his principal place of business is situate; but the classification shall be determined by the annual net earnings or profits of such person in every district.

Officer to grant
license.

The Board of Revenue shall have power to declare in cases of doubt what shall, for the purposes of this Act, be deemed to be such principal place of business.

Board of Re-
venue to declare
licensee's prin-
cipal place of
business.

Every such license shall be signed by the collector granting it, or by such officer as he may appoint in this behalf.

Who to sign
license.

7. Every such license shall specify—

(a) the date of the grant thereof;

(b) the name, father's name, caste and trade, dealing or industry of the licensee;

(c) the class under which he is charged;

(d) the fee payable and paid for the license;

(e) the term for which the license shall remain in force; and

(f) the place or places where the licensee intends to carry on his trade, dealing, or industry during such term,

Particulars to
be specified in
the license.and shall be received in evidence as *prima facie* proof of all matters contained therein.

8. Every such license shall have effect and continue in force from the day of the date thereof till the first day of January next after the date of the grant thereof, notwithstanding that the licensee may have changed his place of business.

Commence-
ment and expi-
ration of
license.

Renewal of
license.

9. Every person to whom any such license has been granted, and who desires to continue to carry on his trade, dealing, or industry after the expiration of such license, shall apply for and take out a fresh license for that purpose, for the following year, to expire on the day appointed in the last preceding section, and shall renew the same from year to year so long as he desires to continue to carry on such trade, dealing, or industry.

List of Persons to be licensed.

Collector to
prepare annual
list of licensees.

10. As soon as may be after the first day of April 1878 and the first day of January in every subsequent year, the collector shall prepare a list of persons to be licensed under this Act in his district. Such list shall state—

- (a) the trade, dealing, or industry of each of the persons therein named;
- (b) the class under which he is charged; and
- (c) the fee to be paid for his license.

Such list shall be in the English language, but a copy or translation thereof in the language of the district shall be filed in the office of the collector, and shall be open to public inspection at all reasonable times without any payment.

Collector to
determine class
under which
licensee is to
be charged.

11. The collector shall from time to time determine under which of the classes mentioned in the said schedule every person who shall apply for a license and to whom a license may be granted by him as aforesaid shall be charged, and may from time to time amend the said list.

Publication of
list.

The list, or such part or parts thereof as the collector directs, shall be published in the language of the district in the principal bazaars and cutcherries, or some other public place or building, in every village, town, or city concerned.

Notification to
persons men-
tioned in list to
take out and
pay for license.

A notification shall at the same time and place be published setting forth the schedule to this Act, and directing that every person falling under any of the classes specified in the schedule shall apply for and take out a license and pay the amount specified in the said list in the year 1878, within 60 days of such publication, and in each succeeding year before the first day of March, or at such other periods as the Governor in Council may determine.

Notification to
contain direc-
tion to persons,
whether men-
tioned in list or
not.

The notification shall also direct that every person falling under any of the classes specified in the schedule, whether he is mentioned in the said list or not, shall apply for and take out a license and pay the amount payable by persons of the class under which he is liable to be charged, within 60 days, or before the first day of March, or as the Governor in Council may determine, as herein-before provided.

Collector may
require list of
persons in any
house, shop,
&c.

12. The collector may, by a notice in writing, require the occupier of any house, manufactory, or shop to forward to him a statement in writing, signed by such occupier, of the names of all persons residing in such house, or working in such manufactory or shop, at the date of the notice, and of their respective trades, dealings, or industries.

Hearing of Objections.

Petition of
objector.

13. Any person mentioned in the list referred to in sections 10 and 11 and objecting to the class under which he is charged, may, within 30 days after such publication, or within such further time as the collector may in each case think fit, apply by petition to the collector in order to establish his right to have his name transferred to another class or altogether removed from the list.

Person not
mentioned in
list, but
charged on
application,
may object to
classification.

Any person who is not mentioned in the said list, but who has applied for a license and objects to the classification under which it is proposed to charge him, may, within 30 days from the date on which his classification is determined, apply by petition to the collector to alter his classification.

Hearing of
petition.

14. The collector shall fix a day for the hearing of the petition, and on the day so fixed, or on such subsequent day as he may from time to time direct, shall hear the same and pass such order thereon as he thinks fit, and shall forthwith furnish the petitioner with a certified copy thereof.

Provided that if, in the judgment of the collector, the petitioner is able to show that the fee which has been charged exceeds 2 per centum upon his annual net earnings or profits, such excess shall, for the purpose of section 13, be deemed a valid objection, to which the collector shall be bound to give effect.

Collector to
exercise powers
of a civil
court.

15. The collector may, for the purposes of any proceeding under section 14, exercise any of the powers conferred by the Code of Civil Procedure on a civil court for the trial of suits.

Provided that the collector shall not, in the course of any such proceeding, call for any evidence, except at the instance of the petitioner, or in order to ascertain the correctness of facts alleged by him.

Appeals.

16. Subject to the provisions of Madras Regulation VII. of 1828, any person dissatisfied with an order made under section 14 of this Act may, within 30 days from the date thereof, present a petition of appeal to the Board of Revenue, whose decision upon such appeal shall be final. Appeal from order on petition.

Provided always, that if such order is the order of an officer subordinate to the collector of the district, the person dissatisfied therewith shall, within 15 days from the date thereof, make an intermediate application for relief to the collector of the district. Proviso.

Provided also that no appeal to the Board of Revenue shall be entertained unless the fee charged by the collector shall have been first paid. Fee to be first paid.

Every petition presented under this section shall be accompanied by a copy of the petition to the collector, and a copy of his order thereon.

Remissions, Penalties, and Recoveries.

17. The collector may in his discretion remit the whole or any part of the fee payable under this Act by any person who has carried on his trade, dealing, or industry for a portion of the year only. Power to remit fee.

Provided that no such remission shall be made by the collector in the case of any person who has carried on his trade, dealing, or industry for six consecutive months during the year. Proviso.

In the case of any firm or undivided Hindu family jointly carrying on business chargeable under this Act, payment in respect of the business of the firm or family by any one of the partners in such firm or by one of the members of such family shall, for the purposes of this Act, be considered payment by such firm or family. Payment of fee by partner in a firm or member of undivided family.

19. If after expiry of the period mentioned in the notification published under section 11 for payment of the amount specified or referred to therein, any person liable under section 5 to take out a license (whether mentioned in the said list or not) carries on his trade, dealing, or industry, Penalty for carrying on business without a license.

without having taken out a license as required by this Act,

or without having given notice in writing to the collector specifying his trade, dealing, or industry, place of business, and his annual net earnings or profits, and applied for a license,

he shall be liable, by order of the collector, to pay a fine not exceeding thrice the fee payable by him in respect of such license, as adjudged by the collector, and in addition to the fee so payable for such license.

On payment of such fee and fine, the collector shall grant him a license.

20. All sums due under the last preceding section and all fees payable under this Act may be recovered in the same manner as arrears of land revenue. Recovery of sums due under this Act.

But no fees or other sums due under this Act shall be recoverable by any process whatever after the expiry of three months from the last day of the year in respect of which they are payable. Period of limitation.

21. Every person holding a license under this Act shall produce and show such license when required so to do by an officer generally or specially empowered in writing by the collector to make such requisition. License to be produced on demand.

If such person shall, without reasonable excuse, neglect or refuse to do so, he shall, on conviction before a magistrate, be liable to a fine not exceeding 100 rupees. Penalty.

But no person shall be proceeded against for neglect or refusal to produce such license except at the instance of the collector. Prosecution to be at instance of collector.

Trustees, Guardians, &c.

22. The court of wards and receivers and managers appointed by any court in British India shall be chargeable under this Act in respect of any trade, dealing, or industry of which the income is officially in their possession or under their control. Court of Wards, receivers and managers chargeable.

23. When any trustee, guardian, administrator, curator, committee, or agent is charged under this Act in such capacity, or when the court of wards, or any receiver, or manager appointed by any court, is charged under this Act, every such person or Power to trustee, &c. to retain money for payment of fee.

court so charged may, from time to time, out of the money coming to his or its possession as such trustee, guardian, administrator, curator, committee, or agent, or as such court of wards, receiver, or manager, retain so much as is sufficient to pay the fee charged.

Every such person or court is hereby indemnified for every retention and payment made in pursuance of this Act.

Municipalities.

Power to require returns from municipalities.

24. The collector of the district may require any municipality to furnish, within a period to be specified under the orders of the Governor in Council, returns showing the names and numbers of persons chargeable under this Act resident within the limits of such municipality, together with the class under which they are so chargeable and the fees payable by them respectively.

If the municipality fails within the period prescribed to make such returns, or if it make such returns but the collector has reason to doubt their accuracy, he may at any time cause a return showing the names, numbers, and classes aforesaid to be prepared in such manner as may be prescribed by the Governor in Council.

Notice to municipalities to pay fees chargeable under this Act.

25. When the return mentioned in section 24 has been furnished or prepared, notice may be served on the municipality calling on it to pay to the collector, within a period to be specified in the notice, a sum calculated on such return in accordance with the provisions of this Act.

Municipality how to pay.

Any municipality may appropriate any part of its revenues to the payment of the sum leviable from it under this section, or raise such further sums in addition to its existing revenue as may be needful for such payment: provided that such further sums be raised only in accordance with this Act and with the Act under which such municipality is constituted.

President of municipality to exercise powers of collectors. Municipality entitled to remuneration.

For the purposes of this section the president of any municipal commission may exercise all the powers of a collector under this Act.

Every municipality shall be entitled to such reasonable remuneration as may be determined by the Governor in Council for the performance of the duties imposed by this Act.

Miscellaneous.

Disposal of fees and penalties.

26. The net amount of all fees and penalties paid or recovered under this Act, after deducting the expenses of collection, shall be carried to the credit of the Government of Fort St. George.

The amount so credited shall be applied in such manner as the Governor-General in Council thinks fit for the purpose of defraying expenditure incurred or to be incurred for the relief and prevention of famine in the territories administered by the Government of Fort St. George, or if the Governor-General in Council so directs, in any other part of British India.

Powers of collector under Act may be exercised by other officers.

27. All or any of the powers and duties conferred and imposed by this Act on a collector may, subject to the orders of the collector, be exercised and performed by a sub-collector, head assistant collector, or by an assistant or deputy collector, or by a tahsildar, or by such other officer as the Governor in Council may from time to time appoint in this behalf.

Power to exempt and make rules.

28. The Governor in Council may, from time to time—

- (a) exempt any local area, or any persons or class of persons from the operation of this Act, and cancel such exemption;
- (b) make rules consistent with this Act
 - (1) for regulating the time and manner of collecting the fees charged under this Act;
 - (2) for providing in any case or class of cases for serving notices on persons charged under this Act; and
 - (3) generally for the guidance of officers in matters connected with the enforcement of this Act.

THE SCHEDULE. (See Section 5.)

Tax on Trades, Dealings, and Industries.

	Yearly.
Class I.—Persons whose annual net earnings or profits shall be adjudged to be rupees 40,000 and upwards	Rs. 800
Class II.—Persons whose annual net earnings or profits shall be adjudged to be rupees 35,000, or more than rupees 35,000 and less than rupees 40,000	700
Class III.—Persons whose annual net earnings or profits shall be adjudged to be rupees 30,000, or more than rupees 30,000 and less than rupees 35,000	600
Class IV.—Persons whose annual net earnings or profits shall be adjudged to be rupees 25,000, or more than rupees 25,000 and less than rupees 30,000	500
Class V.—Persons whose annual net earnings or profits shall be adjudged to be rupees 20,000, or more than rupees 20,000 and less than rupees 25,000	400
Class VI.—Persons whose annual net earnings or profits shall be adjudged to be rupees 15,000, or more than rupees 15,000 and less than rupees 20,000	300
Class VII.—Persons whose annual net earnings or profits shall be adjudged to be rupees 10,000, or more than rupees 10,000 and less than rupees 15,000	200
Class VIII.—Persons whose annual net earnings or profits shall be adjudged to be rupees 5,000, or more than rupees 5,000 and less than rupees 10,000	100
Class IX.—Persons whose annual net earnings or profits shall be adjudged to be rupees 2,500, or more than rupees 2,500 and less than rupees 5,000	50
Class X.—Persons whose annual net earnings or profits shall be adjudged to be rupees 1,250, or more than rupees 1,250 and less than rupees 2,500	25
Class XI.—Persons whose annual net earnings or profits shall be adjudged to be rupees 500, or more than rupees 500 and less than rupees 1,250	10
Class XII.—Persons whose annual net earnings or profits shall be adjudged to be more than rupees 200 and less than rupees 500	4

No. 140.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, April 25, 1878, No. 21
(Legislative).

IN conformity with the provisions of section xxi. of the Indian Councils Act, I have the honour to forward to your Lordship an authentic copy of the law noted in the margin, which has been passed by the Council of the Governor General of India, for making laws and regulations, and to which I have signified my assent.

Act No. X. of 1878. An Act for the levy of additional rates on land in the Central Provinces.

the honour to forward to your Lordship an authentic copy of the law noted in the margin, which has been passed by the Council of the Governor General of India, for making laws and regulations, and to which I have signified my assent.

Enclosure in No. 140.

ACT No. X. of 1878, passed by the GOVERNOR GENERAL OF INDIA IN COUNCIL.

(Received the assent of the Governor General on the 15th March 1878.)

AN ACT for the levy of Additional Rates on land in the Central Provinces.

WHEREAS, in order to defray the expenditure incurred and to be incurred for the relief and prevention of famine, it is necessary to make a permanent increase to the annual revenues, and it is therefore expedient to provide, in the territories administered by the Chief Commissioner of the Central Provinces, for the levy of additional rates on land; it is hereby enacted as follows:—

1. This Act may be called "The Central Provinces Additional Rates Act, 1878."

It extends only to the territories administered by the Chief Commissioner of the Central Provinces; and it shall come into force on such date as the Governor General in Council by notification in the "Gazette of India" directs.

2. Every estate shall be liable, in addition to the rates and cesses payable under any settlement for the time being in force, to the payment of such further rate, not exceeding 1 per cent. on its annual value, as the Chief Commissioner, with the previous sanction of the Governor General in Council, from time to time imposes.

Short title.
Local extent.
Commence-
ment.

Additional rate
on estates.

“Annual value” means,

- (1) in cases in which the settlement of the land revenue is liable to periodical revision, double the amount of the land revenue for the time being assessed on the estate ;
- (2) in cases in which such settlement is not liable to such revision, or in which the land revenue has been wholly or in part released, compounded for, redeemed or assigned, double the amount which, if the settlement were liable to such revision and an assessment at full rates were made, would be assessed as land revenue on the estate.

Recovery of rates.

3. All sums due on account of any rate imposed under this Act shall be recoverable as if they were arrears of land revenue due in respect of the land on account of which the rate is payable.

Rates to be credited to local government.

4. The proceeds of all rates levied under this Act shall be carried to the credit of the local government.

Appropriation for increasing revenue available for relief and prevention of famine.

5. From the sums so credited the Chief Commissioner shall from time to time appropriate such amount as the Governor General in Council may direct, for the purpose of increasing the revenues available for defraying the expenditure incurred or to be incurred for the relief and prevention of famine in the said territories ; or, if the Governor General in Council so directs, in any other part of British India.

The residue of the said sums after such appropriation may be applied by the Chief Commissioner, subject to the control of the Governor General in Council, to such local works likely to promote the public health, comfort or convenience as the Chief Commissioner thinks fit.

Supplementary powers of Chief Commissioner.

6. The Chief Commissioner, with the previous sanction of the Governor General in Council, may by notification in the local Gazette from time to time—

- (a) determine by what instalments and at what times any rate under this Act shall be payable, by whom it shall be assessed, collected and paid, and what portion (if any) thereof, paid by any person in respect of an estate, may be recovered by such person from any other persons having any interest in such estate ;
- (b) make rules consistent with this Act for the guidance of officers in matters connected with its enforcement ;
- (c) exempt wholly or in part any portion of the said territories from the operation of this Act, or exempt any estate from liability to pay the whole or any part of any rate under this Act, and cancel any exemption under this clause ;
- (d) direct fresh measurements of estates liable to pay rates under this Act, and vary the assessments accordingly.

No. 141.

LETTER from the GOVERNMENT OF INDIA, June 3, 1878, No. 217 (Financial).

MY LORD,

Page 290.
Page 217.

By his Despatch No. 104, dated the 1st April 1878, Lord Salisbury confirmed the general approval which was conveyed to us in his telegram, dated the 12th January, of the measures by which we have added to our income the estimated sum of a million and a half sterling per annum in order to form an insurance fund to make provision for famine expenditure.

2. But by the 6th paragraph of this Despatch we are reminded that, in order to relieve our treasury, the Secretary of State's drawings in India during 1877-78 were reduced by nearly six millions below the estimate of January 1877, and we were further informed that the Secretary of State's power of borrowing is almost exhausted, and that Lord Salisbury did not consider that there was any ground for applying to Parliament at present for fresh powers.

3. Under these circumstances Lord Salisbury intimated to us that it is necessary that, whenever the demand for bills and the state of the exchange will admit, the sum which has been provided from the Home Treasury to meet famine expenditure should be repaid from the million and a half which is to be raised annually on account of famine. Lord Salisbury considered that such an arrangement would be strictly in accordance with the rule that all sums required to be obtained on loan for productive public works shall be raised in India.

4. On the 26th May we were informed by telegram that your Lordship proposed to draw 40 lakhs weekly during June and July if the demand admits, thus raising

your bills during the first four months of the financial year to an aggregate of Rs. 7,80,00,000, being at the rate of Rs. 23,40,00,000 a year, instead of Rs. 20,00,00,000 as estimated. Your Lordship added that it is important to continue these large drawings in view of the amount lent us last year, and referred us to the 6th paragraph of Lord Salisbury's Despatch No. 104, just recited. We replied on the 29th instant that we could meet bills for 40 lakhs of rupees weekly during June, but could not at present pledge ourselves to do so during July. Page 290.

5. The hesitation thus indicated more particularly refers to the position of the country, due to the late extremely severe seasons of drought. Without attempting to estimate the probable prospects of the coming year, for which we have no really trustworthy data, it is apparent that there must be some risk of failure of the ordinary rains in this year, as in every other, but that a failure which, under ordinary circumstances would not be very serious, might at present become a calamity of great intensity, such as would tax our resources to the utmost if it were to occur.

6. We feel, therefore, that great caution is required on our part until the monsoon rains, upon which agricultural operations depend, shall set in generally with some appearance of regularity. The spring harvest in Upper India has been disappointing. The prices of the food of the people are already so abnormally high in all parts of India as to cause much distress, and much general anxiety prevails as to the future.

7. We shall, at the earliest possible date, inform your Lordship of the further conclusions we come to on this view of the subject; but there are other circumstances to which we desire to draw attention, before a final decision is arrived at as to the amount of bills to be drawn on us during the remainder of the present financial year.

8. It is in the first place apparent that no part of our sterling debt could be discharged by means of our surplus revenue, as proposed by Lord Salisbury in his Despatch No. 104, otherwise than by the substitution of fresh debt incurred in rupees, unless by a corresponding reduction of our balances at the end of the year, or in the expenditure on productive public works. As the general financial policy we have adopted in respect to the prosecution of this class of works has received the approval of Her Majesty's Government, we infer that no reduction on the outlay on them is intended, and that it is to the reduction of the treasury balances that your Lordship looks as affording the means of carrying out the proposed measures.

9. We fully recognize the complete conformity of the course contemplated by your Lordship with the views that have been advocated by our Government, and the pledges we have given as to the application of the surplus revenues to be created by the new taxation. But we desire, for reasons which will be stated in the subsequent part of this Despatch, to suggest to your Lordship that action in the manner proposed should be deferred till the coming financial year.

10. On the general subject of how the desired reduction of the home debt may best be effected, we shall address your Lordship in a separate communication.

11. In the present Despatch we shall confine ourselves to the question whether in any case it is expedient to begin the operation during the current financial year.

12. And, first, it is clear that this cannot be done without considerable disturbance of the estimates. The remittance of an additional million and a half would add at least 264,706% to the 3,000,000% already provided under the adjusting head loss by exchange, and thus decrease by this large sum* the estimated surplus of the year. In all, therefore, our estimated closing balance in India would be reduced by Rs. 1,76,47,059,† unless we borrowed this sum in India in excess of the estimated amount, or diminished on public works expenditure to that extent.

13. It is true that, inasmuch as your Lordship would simultaneously discharge sterling debt of equal amount, a further rupee loan would not on the whole cause an increase to our debt during the year of a larger sum than we estimated. But the money market has had no warning of any such additional operation, the effects of which must inevitably be somewhat to depreciate our rupee securities by adding to their amount, while it might be difficult to convince the subscribers to the loan advertised on the 27th May that their interests were not affected adversely by the transaction which would be certainly very unpopular in the Indian money market. We could, indeed, scarcely hope to escape a charge of bad faith towards our new creditors, from which we should feel some difficulty in defending ourselves. Upon the whole, therefore, we anticipate that your Lordship will concur with us in thinking that, if we cannot

* Less any saving in interest on our sterling debt.

† The sum might be more, as with so large an addition to the amount for remittance we must probably expect on the whole a worse average exchange.

increase our remittances during the year for the purpose of reducing our sterling debt as desired by your Lordship without borrowing afresh in India, it will be better to postpone the commencement of the operation until after the close of the year.

14. Presuming, as before observed, that it is not intended to diminish the public works expenditure, the only question which remains is whether it would be prudent to permit the closing balance in our Indian treasuries for the current year to be reduced below the amount estimated in the financial statement, namely, 13 crores of rupees. In the first place, however, we must be allowed to advert to the serious objections that obviously exist to deviating at the very commencement of the year to any important extent, unless from very pressing causes, from the financial programme which we have but just now framed for our guidance and published for general information, with all the deliberation which this important part of administration requires. Our budget estimates led to the conclusion that, if the year is fairly prosperous, our balances at its close would aggregate 13 crores of rupees; even if there were no exceptional circumstances to take into consideration, we should not think such a balance at all too large at that season of the year. We cannot meet your Lordship's bills to the extent it may be of $2\frac{1}{2}$ crores of rupees in a single month, and at the same time provide for the expenditure, including that on productive public works, on the scale estimated this year, without a large working capital in the shape of treasury balances. The experience of the past few years has sufficiently proved that, with the greatly increased transactions of the present time, a smaller balance than that for which we have estimated could not be prudently risked. Embarrassments, indeed, have already arisen from permitting the balances to fall too low, and we feel constrained to urge that our discretion should not be forced in this matter.

15. Apart, however, from such general considerations, and from any doubts arising in connexion with the political condition of Europe, there are special reasons this year why our treasuries should be well supplied. As already said, the late unprecedented seasons of drought have left the country in a condition that necessarily causes us sufficiently grave apprehensions to make it, in our judgment, essential that, for some months to come, we should maintain resources ready to meet possible calls upon our treasury.

16. There remains for notice the conversion of the $5\frac{1}{2}$ per cent. loan for which provision must be made towards the end of the year. The outstanding amount of this loan is Rs. 9,84,51,700, and it matures on the 31st May next. We are about to place before your Lordship the measures which we propose to take for the discharge of this loan, but obviously, to enable us to deal with it advantageously, it is necessary to avoid everything that shall tend to diminish the balances in our treasuries. This argument alone is, we venture to think, sufficient to establish that, until the success of this rather considerable operation is secured, it must be inexpedient, without very pressing reasons, to withdraw funds from India to England in excess of the large amount provided in the estimates.

17. Upon the whole we conclude that it would be better, in any case, to take no steps for the conversion of existing sterling liabilities into rupee liabilities until next year, after previous provision made upon the estimates.

18. If we should not obtain your Lordship's assent to this conclusion, still we would earnestly deprecate the beginning of any such operation until—

- (1.) We can report that the agricultural prospects of the year in India may be fairly considered to be placed beyond doubt.
- (2.) The success of our contemplated operations for the conversion of the $5\frac{1}{2}$ per cent. loan to a loan bearing a lower rate of interest is secured.

We have, &c.

LYTTON.

F. P. HAINES.

A. J. ARBUTHNOT.

A. CLARKE.

J. STRACHEY.

E. B. JOHNSON.

W. STOKES.

RIVERS THOMPSON.

DESPATCH to the GOVERNMENT OF INDIA, July 11, 1878, No. 235 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Financial Letter (confidential) dated the 3rd June 1878, No. 217, on the subject of the amount of bills to be drawn on your Government during the current official year 1878-79. Page 296.

2. In that communication you refer to the Financial Letter from Lord Salisbury, dated the 1st April last, No. 104, in which he called your attention to the relief afforded to your Treasury by the reduction made in the Secretary of State's drafts in 1877-78, in order to enable you to meet the famine expenditure, and to the fact that his power of borrowing in this country was almost exhausted, and stated that whenever the demand for bills and the state of the exchange would admit, the sum obtained by the Secretary of State on loan, to supply the deficiency in the amount obtained for bills, should be repaid from the million and half to be annually raised in India by new taxation as a famine insurance fund. Page 290.

3. You also refer to my telegram of the 25th May, which informed you that I proposed to draw bills to the amount of 40 lacs weekly during June and July, and to your reply on the 29th May, that you could meet bills for 40 lacs during June, but could not pledge yourselves to do so during July.

4. You also refer to the uncertainty which exists as to the monsoon rains, to the general anxiety on that account which prevails as to the future, and to the necessity for making arrangements for the conversion of the 5½ per cent. loan, which will mature on the 31st May 1879; and you represent that in your opinion it is not expedient to commence the repayment of any portion of the sum due to the Home Treasury during the current financial year, or at least until there is some certainty as to agricultural prospects and the success of the conversion of the 5½ per cent. loan is secured.

5. The first reason given by you in support of that opinion is that it cannot be done without considerable disturbance of the estimates, and that the remittance of an additional million and a half would add at least 264,706l. to the 3,000,000l. already charged for loss by exchange, and would thereby decrease the estimated surplus of the year by the above sum of 264,706l., as well as your closing balance by Rs. 1,76,47,059, unless you borrow that sum in India in excess of the amount already estimated, or diminish your public works expenditure to a corresponding extent.

6. I hope that one or other of the two last alternatives may in your opinion be practicable, as I concur with your Excellency in feeling a great reluctance to take any step that would have the effect of reducing the surplus of the year; but I cannot lose sight of the risk and inconvenience that might be incurred should the resources of the Home Treasury prove to be insufficient to meet the demands upon it.

7. I am aware that to whatever extent the bills drawn on your Government may exceed the sum included in your budget, the excess must be provided by loan in India, or by a reduction of your cash balance. But, new taxes having been recently imposed in order to provide an insurance fund against famine, the first charge on that fund is naturally the liability to repay the amount raised in England and expended on famine relief in India, and thereby to place the Secretary of State in a position to render similar aid hereafter in any like emergency.

8. Instead, however, of commencing such repayment, you propose to incur expenditure in the construction of productive public works to an amount greatly in excess of the money to be raised on loan in India, and to apply the whole of the famine insurance fund towards making up the sum deficient, although the Secretary of State had felt obliged to give contrary instructions, and a declaration had been made in Parliament on his behalf in conformity with them.

9. You also suggest that, if the mode of applying the famine insurance fund proposed by you be not continued in future years, it should at least be allowed during the present year.

10. In support of this view, you observe that "the money market has had no warning of any such additional operation, the effects of which must inevitably be somewhat to depreciate our rupee securities by adding to their amount, while it might be difficult to convince the subscribers to the loan advertised on the 27th May that their interests were not affected adversely by the transaction, which would be certainly very unpopular in the Indian money market. We could, indeed, scarcely hope to escape a charge of bad faith towards our new creditors, from which we should feel some difficulty in defending ourselves." "Upon the whole, there-

“ fore, we anticipate that your Lordship will concur with us in thinking that, if we cannot increase our remittances during the year for the purpose of reducing our sterling debt as desired by your Lordship without borrowing afresh in India, it will be better to postpone the commencement of the operation until after the close of the year.” You further say, “ We must be allowed to advert to the serious objections that obviously exist to deviating at the very commencement of the year to any important extent, unless from very pressing causes, from the financial programme which we have but just now framed for our guidance and published for general information, with all the deliberation which this important part of administration requires.”

11. I recognise the importance of adhering as nearly as practicable to the financial programme announced annually in your budget statements, and under a similar view great caution in publishing the intentions of the Government in regard to raising loans has been repeatedly enjoined in the Financial Despatches to the Government of India. But, if during any year no additional expenditure beyond that estimated in the budget be undertaken, and nevertheless a necessity becomes apparent for a loan in excess of the amount contemplated in the budget, the Government could not be justly charged with a breach of faith if it raised on loan the further sum required.

12. The course proposed by your Government is, however, to a certain extent open to objection.

13. Having announced your intention of expending 4,555,000*l.* on productive public works during the year 1878-79, and of borrowing 2,500,000*l.* towards meeting that expenditure, you have now submitted for my sanction a proposition to authorise the Government of Bengal to borrow 14 lacs of rupees on debentures at 4 per cent., with a contingent share of profits. Nor, although the loan would be styled a provincial debenture loan, can it be said that the money so raised would not form part of an imperial loan, for it is stated in the enclosure No 3 to your letter dated the 2nd May, No. 186, that the debentures to be issued will “ be part of the registered public debt, “ and the debentures themselves part of the public securities of the State.” The remarks of your Government which I have quoted above appear to be somewhat inconsistent with this proposal.

14. If the full amount required for the service of the year 1878-79 be obtained for bills on India, the cash balance in the Home Treasury will be insufficient to provide against any emergency, while the Secretary of State has no longer authority from Parliament to raise a loan, nor in my opinion any adequate ground for applying to Parliament for another Loan Act. It is necessary that this position of the Home Treasury, which presses upon us here, should be carefully borne in mind in India.

15. With an annual expenditure in this country of 17 millions, much uncertainty as to the demand and rate of exchange to be obtained for bills on your Government, and no power of borrowing, it must be apparent that it is imperatively necessary that, whenever the demand for bills will admit, the home cash balance must be increased by further drafts on your Government.

16. I am sensible of the importance of proceeding with the construction of useful public works, and of making favourable arrangements for the conversion of your 5½ per cent. debt in 1879; but these considerations must be regarded as secondary to that of keeping the Home Treasury supplied with sufficient funds to meet the demands upon it.

17. I regret, therefore, to be compelled again to request that your financial arrangements may be so framed as to enable you to meet drafts to an increased amount during the current year, whenever the demand for bills on India shall render such increase expedient.

I have, &c.
CRANBROOK.

No. 143.

DESPATCH to the GOVERNMENT OF INDIA, July 18, 1878, No. 245 (Financial), paragraphs 55 to 61.

See No. 6, page 27.

No. 144.

LETTER from the GOVERNMENT OF INDIA, September 16, 1878, No. 354 (Financial).

See No. 107, page 151.

No. 145.

LETTER from the GOVERNMENT OF INDIA, September 26, 1878, No. 372 (Financial).

MY LORD,

WE have to acknowledge the receipt of Financial Despatches No. 235 of the 11th July, and No. 245 of the 18th July, by which we are informed that your Lordship considers that it will be necessary to strengthen the Home Treasury by drawing upon us during 1878-79, to the extent of a million sterling, in addition to the 17 millions provided for in the budget estimates of the year. We shall accordingly be prepared to meet this further demand. Pages 142 and 27.

2. The first of these Despatches replies to our letter of the 3rd June, which contained our reasons for thinking that it might be more prudent to postpone any attempt to reduce the home debt during the present year. It informs us that, if only the original amount fixed for the bills on India is obtained, the balance in the Home Treasury will be insufficient to provide against any emergency; and that it will, therefore, be necessary for us to meet drafts to an increased amount. Page 296.

3. Although Lord Salisbury's Despatch of the 1st April informed us that his power of borrowing was almost exhausted, and that the sum advanced from the Home Treasury to meet famine expenditure should be repaid, we have now been for the first time informed that the balance in the Home Treasury was considered insufficient. We had naturally supposed that, by making provision for the sum stated to be necessary in the estimated requirements of the Home Treasury, communicated to us in regular course for the preparation of the budget estimates of the year, we had done all that was expected of us, and we could not have gone beyond this. Page 290.

4. Your Lordship remarks, with reference to the application of the surplus to provide which new taxation has lately been imposed, that the first charge on that fund is naturally the liability to repay the amount raised in England and expended on famine relief in India, and thereby to place the Secretary of State in a position to render similar aid hereafter in any like emergency.

5. As was intimated in our letter of 3rd June, we fully assent to the view that the home debt may properly be reduced, so far as it can conveniently be done, and this quite irrespectively of the purposes for which it may have been incurred. But it is necessary for us to remind your Lordship that, in our Despatch of 4th January, we had explained the manner in which we ourselves proposed to apply the surplus for which we had made provision by means of the new taxes, and that, in the absence of any communication in a different sense, though there was ample time for us to have received Lord Salisbury's instructions either by letter or telegraph, before the completion of the budget estimates of the year in March, we could only suppose that no objection was taken to our proposals. The first intimation of any such objection was conveyed to us in Lord Salisbury's Despatch of the 1st April, which we did not receive till the end of that month, or more than six weeks after the financial arrangements of the year had been settled, and after all our preparations had been made for the issue of the loan which those arrangements involved, and to supplement which by a further issue, without some great urgency, we regarded as inexpedient. Page 183.

6. But your Lordship further remarks that, instead of repaying the amount recently raised in England, we had proposed "to incur expenditure in the construction of "productive public works to an amount greatly in excess of the money to be raised "on loan in India, and to apply the whole of the famine insurance fund towards "making up the sum deficient, although the Secretary of State had felt obliged to "give contrary instructions, and a declaration had been made in Parliament on his "behalf in conformity with them."

7. We are in doubt as to the precise meaning of these words, which might be construed as implying an intention on our part of acting in opposition to the clearly expressed wishes of Her Majesty's Government.

8. We must disavow any such intention, and all knowledge of any instructions that could be interpreted to restrain us from the course of conduct we pursued before the

receipt of Lord Salisbury's Despatch of the 1st April, or advocated after its receipt; and we would also affirm that, in what we did, we supposed we were giving effect to the declared policy of Her Majesty's Government in relation to public works expenditure.

Page 27.

9. We have now gathered from your Lordship's Despatch of the 18th July that a certain portion of the sum borrowed in England last year is regarded as having been borrowed for public works, and therefore, in a certain sense, improperly borrowed; and that reference is made to this when it is said that a declaration had been made in Parliament which was not consistent with our action or our proposals, inasmuch as they did not contemplate the discharge of this debt.

10. It is, doubtless, open to your Lordship to treat the debt in question in this manner. It is hardly possible to say otherwise than in an arbitrary manner for what precise object debt is incurred, when the expenditure of the State exceeds its income; and we quite recognise that it is as justifiable to say that this money was borrowed for public works as for famine relief. But the converse would be equally true; and we find that, as a matter of fact, Lord George Hamilton, in the debate on the second reading of the Loan Bill, stated that Her Majesty's Government was obliged to ask for borrowing powers, "simply because they had to expend, in five years, a sum of 11,300,000*l.* in meeting two famines."

11. We need only further say on this point, that it had not occurred to us, until the receipt of your Lordship's Despatches which have been referred to, that the view now explained would be taken of this transaction. In the absence of directions to treat it in this way such an idea could not have presented itself to us, nor could we have volunteered proposals for dealing with the home debt.

12. We are not able to see how the application of the surplus revenue of the year to the construction of productive public works is opposed to any instructions of the Secretary of State, as seems to be implied in the passage above quoted from your Lordship's Despatch under reply. We are not aware of any orders limiting the expenditure on such works to funds specially borrowed in India for the purpose, though, doubtless, we are restrained from borrowing for them except in India. The distinction between these two propositions is obvious. We had supposed that the desire of Her Majesty's Government had always been, on the one hand, to restrict the borrowing for public works as closely as possible, and, on the other, to provide for them from surplus revenue as amply as possible. The new taxation was specially designed to create a surplus revenue, and the natural, or rather necessary, application of this surplus was either to the discharge of debt, or to the works for which debt would otherwise have to be incurred. In the absence of any instructions from the Secretary of State opposed to the plan we had proposed, and the discharge of debt in India not being expedient while borrowing was still necessary on a large scale, we could only act as we did. Your Lordship's instructions have now been received to apply the surplus to the discharge of the home debt. The propriety of reducing the home debt has not been questioned, though delay in carrying out the reduction was suggested, for reasons which we thought sufficient, but which have now been overruled. It is our intention, shortly, to report our conclusions as to the best way of giving effect to this policy, so far as the adoption of it may finally appear expedient to your Lordship; at present we will only express a doubt whether it can be best accomplished by the direct remittance of funds from India to England.

13. We purpose to address to your Lordship separately on the subject of the provincial debenture loans which we had proposed, but to which we regret to see that objection has been taken.

We have, &c.

LYTTON.
F. P. HAINES.
A. J. ARBUTHNOT.
A. CLARKE.
W. STOKES.
A. R. THOMPSON.
R. STRACHEY.
S. J. BROWNE.

No. 146.

DESPATCH to the GOVERNMENT OF INDIA, February 20, 1879, No. 62 (Financial).

See No. 109, page 156.

No. 147.

DESPATCH to the GOVERNMENT OF INDIA, February 20, 1879, No. 63 (Financial).

MY LORD,

PARAGRAPH 1. I have considered in Council your Financial Letter, dated the 26th September 1878, No. 372, replying to the observations contained in my Financial Despatches of the 11th and 18th July last, Nos. 235 and 245, relative to the remittance to the Home Treasury, from the $1\frac{1}{2}$ million to be raised in India by new taxation as a famine insurance fund, of a portion of the amount by which your Treasury was relieved in 1877-78, in order to enable you to meet the famine expenditure. Page 301.

2. You remark that, in your letter of the 4th January, you explained the manner in which you proposed to apply the surplus to be obtained by the new taxes, and "that, in the absence of any communication in a different sense, though there was ample time for" you to have received "instructions either by letter or telegraph, before the completion of the budget estimates of the year, in March," you "could only suppose that no objection was taken to" your "proposals"; that, until the receipt of Lord Salisbury's Financial Despatch of the 1st April, you were not aware of any instructions that could be interpreted to restrain you from the application of the surplus obtained from new taxation in reduction of the amount to be borrowed in India for the construction of productive public works; and that, until the receipt of my Financial Despatches above referred to, you had not considered that such a mode of dealing with the famine insurance fund could be regarded as inconsistent with the declaration made in Parliament by Lord George Hamilton on the second reading of the Loan Bill, and quoted by you, that the borrowing here was required "simply because they (Her Majesty's Government) had to expend in five years a sum of 11,300,000*l.* in meeting "two famines." Pages 142 and 27.

3. It appears to me that there has been some misapprehension on the part of your Government of the intentions of the Secretary of State regarding the construction of productive public works by means of loans to be raised for that purpose. Page 188.

4. A reference to the correspondence with your Government will show that there has been no deviation on the part of the Secretary of State in Council from the policy distinctly laid down in regard to raising money on loan in this country, and to the sources from which the ways and means for constructing public works in India are to be obtained. Page 290.

5. It is apparent that, if, in time of famine, when funds to meet the charge thereby occasioned cannot be borrowed in India, loans are raised in England in order to aid the Indian Treasury, and, when the emergency is past, and a surplus of income is obtained in India (including, in the calculation, the 1,500,000*l.* from new taxes, but excluding expenditure on productive public works), that surplus is not used to recoup the Home Treasury, but is applied to the execution of those works, thereby reducing the amount borrowed in India for such works, it could not be said that productive public works are not being executed from loans raised in England.

6. When the Financial Despatch of the 10th January* was written, it was naturally believed that the fact that your Treasury had been aided to the extent of six millions by loans raised in this country during the recent famine, and that the first charge against the produce of fresh taxation for famine purposes was the liquidation of liabilities incurred in England, specially for the famine, would be present to your mind. That belief was strengthened by the remarks of Sir John Strachey in the Legislative Council; and, although, in the observations of your Excellency, reference was made to expenditure on productive public works, it was not understood that it was intended to postpone altogether the liquidation of existing liabilities; nor did it seem necessary for me to recall such considerations to your recollection at a time when the greatest difficulty existed in obtaining even the ordinary remittances from your Government. Page 191
Page 210.

* Forwarding the estimate of Home expenditure in 1878-9.

7. It was only when it became clear, from your Financial Letter of the 4th January 1878, that you intended to devote the produce of the new taxes to the immediate construction of additional public works, that it became desirable to remind you of the importance of recouping the Home Treasury at as early a period as possible, to the extent of the loan raised here, and to point out to you that, until some measures are taken for that object, it would be contrary to the pledge given to Parliament to apply the proceeds of the new taxes to the prosecution of public works in India.

8. It is satisfactory to me to find that, on the main question of the application of the million and a half from new taxes, there is not any real difference of opinion between your Government and myself, and it is, therefore, unnecessary for me to enter upon the arguments contained in your letter as to other cognate matters.

I have, &c.

CRANBROOK.

No. 148.

EXTRACTS from RESOLUTION by the GOVERNMENT OF INDIA, March 13, 1879, No. 1249
(being the Financial Statement for 1879-80).

158. There remains, therefore, a true surplus of 1,309,000*l.* to compare with the estimated surplus of 2,216,000*l.*, showing a deficiency of 907,000*l.*

159. Considering that this surplus exists after paying the whole charges of the war, amounting to 670,000*l.*, after allowing for a charge for loss by exchange higher by 497,313*l.* than the sum taken in the estimates of the year, and notwithstanding the other adverse influences that have been stated, the result, although less favourable than was anticipated at the beginning of the year, must be considered satisfactory. Although under the two heads war and loss by exchange alone, both of them virtually beyond control, the Government has spent 1,258,000*l.* more than was expected, there is still a surplus of 1,309,000*l.* In the financial statement of last year it was said that the Government hoped to provide in 1878-79 from the normal resources of the year a sum of 500,000*l.* for the relief of famine, and that a surplus of at least 1,000,000*l.* would be available from the revenues of the year for the purposes of famine insurance. The total estimated surplus of the year was, as has been explained, largely increased by special causes. The sum of 555,000*l.* has been spent on famine relief, and a surplus of 1,309,000*l.* for famine insurance has been provided; but it must not be forgotten that these results would evidently not have been attained if the Government had been obliged to trust only to the normal revenues of the year.

Amount of
new taxes.

160. It remains to remark that it is a mistake to suppose that 1,500,000*l.* of new taxes was imposed in order to secure the surplus of 1,500,000*l.* held necessary as a provision against famine. The real net taxation imposed last year, and in 1877, was only as follows :—

	1878-79.	1879-80.
Additional Cesses as follows :—	£	£
Bengal (Public Works Cess)	338,000	332,700
Additional (Famine) Cess in Punjab	48,900	49,000
North-western Provinces and Oudh	Nil	82,500
Central Provinces	12,800	12,800
Total Cesses	399,700	477,000
Assessed taxes, less Pandhary (which is old), (gross revenue less refunds)	803,700	832,400
Salt, say	150,000	Nil
Total	1,353,400	1,309,400
Deduct inland sugar duties and customs duties remitted	232,000	232,000
Net additional taxation	1,121,400	1,077,400

Eventual
amount.

161. There will remain still to levy hereafter 27,500*l.* of the famine cess in the North-western Provinces and Oudh. Thus the total eventual new taxation may be estimated at 1,104,900*l.*

272. The Government of India has repeatedly declared that an annual surplus of 2,000,000*l.* is necessary, in ordinary times, to provide the means of protecting, so far as may be possible, the country against famine, and leave a margin such as every solvent State ought to maintain to meet unforeseen contingencies. It has been necessary, as has been shown, to abandon all hope of obtaining such a surplus in the coming year.

Standard
surplus
2,000,000*l.*
not obtained
this year.

273. The ultimate burden caused by the war will not, it may be reasonably anticipated, prove serious, and the assistance which will, it is hoped, be given from the British Treasury removes all present anxiety on this head. The deficit caused by the war, and shown in the estimates of the coming year, is therefore rather apparent than real.

Finance of
war.

274. The reduction in the revenues caused by the depression of trade and the diminished receipts from the guaranteed railways will, it cannot be doubted, be temporary only; and the guaranteed and State railways are certain to prove growing sources of revenue.

Depression
temporary.

275. The loss caused by the further and great fall which has taken place in the value of silver in relation to gold is a far more real and serious cause of financial embarrassment.

Exchange.

276. The loss by exchange on the estimated amount of the home remittances in the coming year is 3,947,368*l.*; it would have been 4,142,000*l.* if provision were made for remittances to cover the whole of the current home charges. The latter sum is more by 3,324,000*l.* than would have been required for the remittance of the same amount in 1872-73, the last year before the long standing equilibrium between gold and silver was violently disturbed. So far as these remittances are required to meet fixed payments, such as interest, pensions, and the like—and such fixed payments constitute the bulk of the home charges—it may be said that this great sum of 3,324,000*l.* represents the yearly taxation now required, in addition to what would have been necessary if the old rate of exchange had been maintained. The rate of exchange fixed by the Secretary of State with the concurrence of the Lords of the Treasury for the adjustment of public financial transactions between Great Britain and India during 1879-80 is 1 rupee=1*s.* 7½*d.*

Loss since
1871-72.

Adjusting
rate.

277. In the financial statement published at the beginning of the present year, it was shown that the Government believed that a *bond fide* surplus of nearly 2,000,000*l.* of income over expenditure had been secured; and of this sum 1,500,000*l.* was to be annually set aside as a special provision against famine. This apparently very satisfactory result was brought about partly by administrative improvements, but mainly by the imposition of new taxation, estimated to yield, eventually, about 1,100,000*l.* a year (see paragraph 160). The Government then hoped that it saw its way to giving to the country the most complete protection which could be devised against the terrible calamities of famine to which it is periodically exposed. It was also sanguine that many reforms were within its reach which would be in the highest degree beneficial.

Expectation
of last year.

278. Although the condition of the finances continues in other respects to be favourable, the fresh fall in the value of silver in relation to gold has, as has been shown, virtually swept away the financial improvement arrived at with so much difficulty. It may be considered that the whole of the new taxation has been swallowed up in the additional charges on account of loss by exchange. The net amount yielded by this taxation in the present year was, as has been stated in paragraph 160, about 971,400*l.*, and it is estimated at 1,077,400*l.* for 1879-80. To remit the whole of the amount required to meet the home charges in the coming year, it has just been shown that the sum of 1,364,362*l.* would be required in excess of the estimate of last year. The insurance provided against future famine has virtually ceased to exist; and the difficulties in the way of fiscal and commercial and administrative reform have been greatly aggravated. Nor can it be in any way assumed that the evil will not continue and go on increasing.

Frustrated
by fall in
exchange.

279. Under such circumstances it is extremely difficult to follow any settled financial policy; for the Government cannot even approximately tell what income will be required to meet the necessary expenditure of the State.

Financial
policy dis-
concerted.

280. It is hardly necessary to add that this most grave question has long been a cause of anxious deliberation to the Government of India. The Governor General in Council has submitted his views to the Secretary of State, and they are now under the consideration of Her Majesty's Government. It would plainly be undesirable to say more on the subject, until Her Majesty's Government has had time to mature its decision in regard to the measures which ought to be taken.

Problem
occupying
attention of
Government.

281. Although, for the present at least, the surplus which the Government hoped that it had secured, has almost disappeared, the Governor General in Council will in

Standard
surplus can-

not be abandoned.

Provision made for next year.

No famine fund was constituted.

Page 254.

no degree abandon the imperative duty of making, to the utmost of his ability, provision for protecting the country against famine. He still believes that a surplus of 1,500,000*l.* a year, in ordinary times, is necessary to cover this liability alone.

282. So far as the coming year is concerned, the help which it is hoped will be afforded by the British Treasury for meeting the expenses of the war relieves the Government from financial anxiety on this account. For the present the Governor General in Council thinks it wise to abstain from imposing any fresh burdens on the country, and to accept the temporary loss of the surplus by which it was hoped that an insurance against famine had been provided.

283. The propriety of the course followed by the Government last year in refusing to constitute any separate fund in connexion with the famine arrangements has thus, it may be added, been justified by the event. Foreseeing the possibility of such a contingency as that which has actually occurred, Sir John Strachey spoke in the Legislative Council on the 9th February 1878 as follows. Any other decision might, he said,

“ lead to results probably not contemplated by those who have suggested the establishment of a separate fund ; I mean that this might involve the necessity for imposing fresh taxation. Suppose, for instance, that the produce of the new taxes were, by law, strictly set apart from the general revenues, and paid into a separate fund only to be applied to specified purposes ; if then any sudden change of circumstances arose, calling for seriously increased expenditure, or causing a considerable falling off in the revenue, we should have to choose between the imposition of fresh taxes and the abrogation of the law constituting the fund ; for I set aside the idea of meeting ordinary charges by borrowing, as a course financially inadmissible. This dilemma might arise, though the pressure was likely to be only temporary ; nor can any one say that such a contingency would be at all improbable, or that it might not occur at any moment. With all my desire to see the pledges maintained that we have given, as to the application of a sum not less than 1,500,000*l.* as an insurance against famine, I think it would be irrational, under many circumstances that I can conceive, to object to the temporary diversion of any necessary part of the revenue from this purpose, with the view of obtaining relief which might be no less urgently required than that which experience has taught us to be requisite in meeting famine.
“ * * * * Without thinking of a future far removed from us, events might, of course, happen which would make it impossible even for us who have designed these measures to maintain our present resolution.”

No. 149.

DESPATCH to the GOVERNMENT OF INDIA, March 27, 1879, No. 15 (Public Works).

See No. 110, page 160.

No. 150.

EXTRACT from DESPATCH to the GOVERNMENT OF INDIA, July 17, 1879, No. 261 (Financial).

23. The principal causes of the excessive charges that have arisen in recent years have been famine, war, and loss by exchange. As regards the first of the three, the sum expended in famine relief in Bengal and the North-west Provinces from 1873-74 to 1875-76 was 6,611,087*l.*, while the famine in Madras, Mysore, and Bombay from 1876-77 to 1878-79 (to which I have already adverted), coupled with the scarcity in certain parts of Northern India during the same period, involved a direct expenditure for famine relief to the amount of 8,046,803*l.*, to which it appears from the 131st paragraph of your Resolution that about 1,350,000*l.** more must be added on account of loss of revenue, payments to the troops arising from the high price of provisions, &c. ; so that, in the six years from 1873-74 to 1878-79, the direct charge on the

	£
* Net direct cost of famine estimated at	9,400,000
Actual famine relief	8,046,803
Balance from other causes	1,353,197

revenues of India, excluding loans to native states and construction of public works primarily undertaken in consequence of the famine, was little less than 16,000,000%.* There is, it may be hoped, good reason to believe that the distress in these years has been exceptionally severe, but your Government came to the conclusion last year that it was necessary to provide for an average expenditure of 1,500,000% annually for famine relief, and for this purpose special taxation was imposed. The manner in which the money thus raised is to be disposed of for the prevention of undue charge on account of famine is fourfold, as explained in my Despatch of the 20th February last, No. 62, namely, by reduction of debt in England, by reduction of debt in India, by direct expenditure for relief in years when it is needed, or by the construction of protective works calculated to avoid future outlay in such relief. Unfortunately, the impossibility of remitting to this country the necessary amount, coupled with other exceptional demands, has prevented you from carrying into full operation the policy initiated by you in 1878. Page 159.

24. Your Excellency rightly declined to place in a separate fund the money specially raised for famine insurance, for it would have been useless to set apart sums which you might have been unable to spend in the manner intended, while you might at the same time have been forced by temporary pressure to impose extra taxation for the other expenditure of the year. It will, however, be convenient if in future financial statements an explanation is given of the mode in which the stated sum of 1,500,000% has been applied, whether to the direct relief of famine, to the reduction of debt in England or in India, or to the prosecution of protective works; and a similar statement should be included in the finance and revenue accounts. In the year 1878-79, the first in which these arrangements came into operation, there is an estimated surplus of 1,451,629%, after expending 555,597% on famine relief. For the current year, owing to the estimated expenditure exceeding the income, there will be no surplus to apply as you had proposed. Your Government, however, has announced that this failure has been unavoidable, and that you will without delay take such measures as will restore the desired surplus of about 2,000,000%, when you will be in a position again to fulfil your intentions. Of this resolution I entirely approve, and I trust that it will be long before any further departure from the policy you had so prudently adopted will be forced upon your Government by unexpected financial pressure, and that you will be able gradually to apply in one or other of the sanctioned methods further sums, to make up for this temporary derangement, so that, at the end of the 10 years from the commencement of the scheme, it may be clearly shown that the amount of 15 millions sterling has been devoted to objects for insurance against the increase of the burdens of the country on account of famine.

No. 151.

EXTRACT from LETTER from the GOVERNMENT OF INDIA, February 18, 1880, No. 71 (Financial).

19. Thus the financial out-turn of the year 1878-79 is satisfactory. With the help of additional taxation, amounting in all to 1,227,891%,† of which 313,420% has been spent upon famine relief, we have realised a true surplus of 1,997,454%, thus achieving a better result than we decided to be necessary to enable us to meet our obligations for famine relief, and this notwithstanding the simultaneous remission

		£	
* Famine relief	-	-	14,563,031
Other expenditure estimated at	-	-	1,353,197
		<u>15,916,228</u>	
		£	
		License Tax.	Provincial Rates.
		£	£
† Central Provinces	-	14,860	6,652
Bengal	-	172,112	355,590 P. W. cess.
North-western Provinces	-	202,283	-
Punjab	-	129,703	44,317
Madras	-	76,896	-
Bombay	-	225,478	-
		<u>821,332</u>	
Total		406,559	<u>1,227,891</u>

of the inland duties on sugar and of some of the duties of customs on cotton goods.

20. The only drawback to complete satisfaction that now occurs to us is that we cannot regard as strictly reproductive the following expenditure, which is recorded in the category of capital expenditure on productive public works, and has thus been excluded from the accounts upon which our surplus is ascertained; namely, the capital expenditure on the—

	£
Orissa Canals	55,746
Midnapur Canals	27,817
Western Jumna Canal	79,415
Punjab Northern Railway	276,870
Indus Valley Railway	820,087
	1,259,929

But expenditure of this class is coming rapidly to an end, and will not, we may confidently hope, be again admitted to the category of productive public works capital expenditure.

Page 307.

21. We have given careful attention to the 24th paragraph of your Despatch No. 261, dated 17th July 1879, in which you suggest to us to explain in future financial statements the mode in which the money specially raised for famine insurance has been applied, whether to the direct relief of famine, to the reduction of debt, or to the prosecution of protective works, and to include a statement with the same object in the finance and revenue account.

22. It does not appear to us possible to devise any form of such account which would not be open to serious objection, and we fear that any attempt to connect the taxation in question with any particular part of the public expenditure would be productive of embarrassment. We shall, however, again address your Lordship on this subject, and we therefore abstain from entering into it on the present occasion.

No. 152.

EXTRACTS FROM LETTER FROM THE GOVERNMENT OF INDIA, February 25, 1880, No. 81 (Financial).

7. The financial statement contains no allusion to the recommendation of the Select Committee of the House of Commons that the reduction of a part of the sterling debt incurred during the Madras famine shall be a first charge upon our surplus, or to your Lordship's repeated injunctions to the same effect. This reticence must not be interpreted to indicate any reluctance upon our part to accept and give effect to these injunctions. We shall shortly address your Lordship further on this subject; but we wish to explain at once that we have only abstained from referring to it because, whatever sums we may be able to remit to your Lordship for the reduction of our sterling debt, in excess, that is to say, of the current requirements of the Home Treasury, such excess remittances, not being expenditure, will only affect our surplus or deficit of revenue to the extent to which the entry under the adjusting head "loss by exchange" will be thereby increased. We cordially acquiesce in the policy of a reduction of the sterling debt incurred during the recent famines, whenever such reduction can be effected without too great a sacrifice through the adverse effect which it must produce upon the exchanges.

* * * * *

12. We are anxious, if possible, to quiet the controversy which has surrounded our measures of famine finance. Accordingly, we have endeavoured in our financial statement to re-state our position in a manner which will, we hope, prevent further misunderstanding. But, after endeavouring carefully to carry out your Lordship's suggestion, we have found it impossible to embody in the financial statement or in the finance and revenue accounts any explanations of the mode in which the stated sum of 1,500,000*l.* has been applied to the direct relief of famine, the reduction of debt, or the construction of protective works.

13. Our expenditure upon the direct relief of famine appears upon the face of our accounts; and, as soon as the conditions upon which we may undertake protective

works are settled, any expenditure upon the construction of such works will, in like manner, also appear upon the face of our accounts. But, as respects the reduction of debt, it seems impossible to connect the particular taxation, in question more closely with such reduction than any other item of our revenues, or to demonstrate in any other way, than by the existence of a surplus that our debt has been reduced at all. We have dealt with the matter in our financial statement upon this principle, and we trust that your Lordship will not press us to render any other separate account of these assets. We believe that such an account is in truth impossible, and we are apprehensive that the attempt to present it will serve no other purpose but to invite the prolongation of profitless controversy, while it may perhaps lead to the classes who pay these taxes putting forward preferential claims to relief, the validity of which claims it would be impossible for us to admit.

Enclosure in No. 152.

EXTRACTS from the FINANCIAL STATEMENT for 1880-81.

SPEECH in the LEGISLATIVE COUNCIL of His Excellency the GOVERNOR GENERAL OF INDIA, by the Honourable Sir JOHN STRACHEY, G.C.S.I., February 24, 1880.

5. The financial out-turn of 1878-79 was very satisfactory ; with the help of the additional taxation imposed in that and in the previous year, amounting to 1,227,891*l.*, of which 313,420*l.* was spent on famine relief, the true surplus of the year exceeded the amount of 2,000,000*l.*, decided to be necessary to meet our obligations on account of famine, and to leave a margin for other contingencies ; and this result was obtained, notwithstanding the expenditure on the war, and the remission of the inland sugar duties and some of the customs duties on cotton goods and other articles. The standard at which, for ordinary times, the Government aims, namely, a surplus of 2,000,000*l.*, less any expenditure on famine relief, and exclusive of extraordinary charges, such as those for great military operations, would have been attained if the accounts had shown a surplus of only 1,010,199*l.*, or 1,034,192*l.* less than the actual surplus.

6. I see only one drawback to entire satisfaction with these results ; some of the capital expenditure under productive public works, as, for example, that on the Indus Valley and Punjab Northern Railways, cannot at present be regarded as directly reproductive. The works themselves possess the highest value ; and for the future, as the Council is aware, no expenditure which is not really and directly reproductive is to be excluded from the comparison upon which the surplus or deficit of the revenue is ascertained. It will be seen later on that we are acting strictly on this principle in the present and coming years.

* * * * *

9. Thus, but for war and famine, the regular estimates of the present year would have shown a surplus revenue of about 4½ millions sterling. The taxes imposed in 1877 and 1878, to enable us to discharge our obligations in time of famine, will, it is estimated, yield 1,184,000*l.* ; and, if we deduct the sum of 99,000*l.* actually spent on famine relief, there will remain of this revenue 1,085,000*l.* To this extent the new taxes have had the effect of preventing debt. Making allowance for other abnormal items on both sides of the account, the true surplus of the year for comparison with the standard surplus of 2,000,000*l.*, at which we aim, will be about 4,160,000*l.* This surplus, if it had been actually obtained, would have been much in excess of the whole expenditure on productive public works, which is estimated at 3,700,000*l.*

If present prospects are fulfilled, the financial out-turn of the present year, 1879-80, will leave nothing to be desired.

* * * * *

13. A local debenture loan of 45,020*l.* was raised for the Cawnpore-Farrukhabad Light Railway at 4 per cent. interest with share of profits.

A local debenture loan of 50,000*l.* was offered at Nagpur in November at par at 4½ per cent. interest, with half the per-centage of surplus profits on the Nagpur-Raipur Railway. The subscriptions amounted to 42,700*l.*, of which 17,300*l.* is payable this year and 25,400*l.* next year.

* * * * *

30. *Productive Public Works (Capital expenditure).*—Grant, 3,312,000*l.* Decrease, 388,000*l.* The grant is thus distributed :

	£
Irrigation and navigation	630,000
Madras Harbour (besides 50,000 <i>l.</i> granted under 34, other public works)	70,000
East Indian Railway	630,000
Other State railways	1,982,000
Total	<u>3,312,000</u>

This grant is made in strict accordance with the conditions prescribed by the Secretary of State as follows :—

	£
Fixed grant	2,500,000
Saving in 1879-80 re-granted	182,000
Capital expenditure on the East Indian Railway	630,000
Total	<u>3,312,000</u>

It is hoped that 988 miles of railway will be opened for traffic in 1880-81. This will complete the communication between Bombay and the North-western Provinces through Rajputana. Good progress will be made towards the completion of railways and works of irrigation already begun, but the funds at our disposal for productive works are now so small that we cannot commence in the coming year any new works of magnitude.

51. I have now, my Lord, to state to the Council the course which the Government proposes to take in regard to the Bill for amending the License Acts. It will be remembered that, when this measure last came before us, I announced, on behalf of the Government, that it was not proposed to take any further steps in the matter until after the publication of the financial statement.

The changes proposed in the existing law, when the Bill was introduced in November last, would, if they had been adopted, have had no appreciable effect upon the revenues, the amount surrendered by the exemption from taxation of the lower classes of traders being just made good by the extension of taxation to the official and professional classes. The effect of the further modifications subsequently proposed, and of the additional exemptions in favour of the poorer traders, would have been a loss on the one hand of 340,000*l.* a year, and a gain on the other hand of 240,000*l.*, thus leaving us, as the general result, with 100,000*l.* less revenue than we get now. The measure was essentially one which had for its object the equitable re-adjustment of taxation, and it had no financial importance.

52. Before going further, I wish to ask the Council to recall the circumstances under which fresh taxation was imposed two years ago.

The object of the new taxes was described in the preamble of the License Act passed by this Council; and nearly the same words were used in the other similar Acts passed for the various provinces of the empire. It was stated that—“in order to provide means for defraying the public expenditure from time to time incurred, and to be incurred, for the relief and prevention of famine in British India, it is necessary to effect a permanent increase of the revenue.”

In making this quotation, I do not attach any exaggerated importance to the declaration that these taxes were intended to give a “permanent increase” to the revenues. It is, of course, competent to the Legislature to alter its policy in regard to this, as to any other matter. The declaration, nevertheless, has this value, that it shows the intention of the Legislature, when these measures were enacted two years ago; and, since the object for which they were enacted—the protection of the country against famine—is undoubtedly as important now as it was then, and as earnestly desired by the Government, it is reasonable to say that very good cause ought to be shown, before we consent to give up taxes avowedly imposed to make a “permanent increase” to the revenues.

53. I may remind the Council what this increase really was. Taking together the measures adopted in the two years 1877 and 1878, the first new taxation was the public works cess, imposed on the land in Bengal; this yielded in 1878-79 355,590*l.* In 1878 new cesses were also imposed on the land in the North-western Provinces, Oudh, the Punjab, and the Central Provinces, yielding about 170,000*l.* The total amount of new taxation on the land was therefore about 525,000; the actual receipts during the last two years have, however, not been so large, because it was thought right to postpone for a time the collection of the cess in parts of Northern India which had suffered from drought. Similar taxation was not imposed on the land in Madras and Bombay; the principal reason for this exemption was, that the salt duties had just been increased in those presidencies, and it was held to be inexpedient to impose cesses on the land at a time when the effects of the famine were still being felt, and when the salt duties were being increased. A license tax on traders was first imposed in 1877 in the North-western Provinces, and in the following year the present License Acts were applied throughout India. They yielded at their maximum about 820,000*l.* net.

The total amount of what has been called the famine insurance taxation was therefore about 1,345,000*l.*

54. Considering that precisely the same reasons were given by the Government, and accepted by the Legislature, for imposing fresh taxation on the trading and on the agricultural classes, with the object of protecting the country against the financial consequences of famine, and that special stress was laid upon our desire to make the burden fall with approximate equality on each of these classes, it would be difficult, for the present Government at least, to accept any proposition for treating them differently now. In fact, it would be hardly possible to maintain the cesses on the land, if the tax on trades were abolished. It might be more possible to defend the abolition of the cesses on the land and the maintenance of the tax on trades. But it is needless to discuss such questions. Practically, so far as we are now concerned, these taxes on the agricultural and trading classes stand on the same basis.

I need hardly say, after what has been said on former occasions, that the Government can entertain no idea of giving these taxes up, and of sacrificing a million a year of revenue. Even if these taxes were as bad as some think them, a time like the present, when we have to meet the heavy obligations entailed by a serious war, would not be opportune for abandoning them; still less could

such a course be approved by those who believe with me that these taxes are far less objectionable than others that could be named, and that when the time comes for remitting taxes it is not with these that we ought to begin.

55. At the same time the Government desires to make all practicable improvements in the assessment and the administration of the License Acts. It was this desire which led the Government to the conclusion, explained by me to the Council, when the Bill for amending those Acts last came forward, that it was desirable to exempt from liability all persons whose annual earnings are less than Rs. 500 a year. As I formerly said, we expect by this change to exempt from taxation about a million and three quarters of the smaller traders, and to lose 340,000*l*. The Government still adheres to these conclusions.

56. Although, when this Bill was last before the Council, I was able to state that there had been great improvement in the financial position of the Government, I did not then venture to anticipate that the improvement would, when we came to make our estimates for next year, be so considerable as it is now shown to be. It has necessarily obliged the Government to reconsider the question of the propriety of extending taxation to the official and professional classes, and thus making good the greater part of the loss incurred by the exemption of the smaller traders from the License Acts.

Although the main object of the Government in this part of its proposals was a more equitable adjustment of taxation, we felt that it was hardly prudent to give up 340,000*l*. of income without any compensation, and this was one of the reasons assigned for the proposal to tax the officials and professional men. The Government has now had to consider this question:—admitting—as we must do, in the present state of the finances—that we do not absolutely require the 240,000*l*., which the contemplated taxation of these classes would yield, is it now desirable to impose it merely for the purpose of making our system of taxation more theoretically equal, and removing to some extent the reproach, which undoubtedly is true, that certain classes do not at present bear their full share of the public burdens?

If it had now been possible to attempt the removal of the numerous inequalities and anomalies which are inseparable from any such partial system of taxation as that which now exists, this would have been an object of high importance; but the mere extension of taxation to the official and professional classes would clearly be no complete solution of such a problem, although it might be a step towards it. On the whole, the Government thinks it better, for the present at any rate, not to press this part of its proposals. We have given up 340,000*l*. from our existing taxes, and we do not ask that any fresh taxation shall be imposed. The amendment of the present law is desirable to carry out the exemption of the lower classes of traders, and for the removal of one or two difficulties which I shall explain later on; but with these exceptions no change is proposed in the License Acts now in force.

57. I do not intend, my Lord, on this occasion to discuss afresh the vexed question of the famine insurance fund or surplus. There has been much misunderstanding between the Government and some of its critics as to what was said, and as to what, though unsaid, we are presumed to have meant when the taxes to which I have referred were first imposed in 1877 and 1878; for this misunderstanding, so far as it has been due to want of precision in the explanations of our policy, I am prepared to accept my full share of responsibility, but for my part I do not intend to refer to it again. I shall only say further that there has been, in regard to this matter, no change in the financial policy of the Government, nor is any change proposed now. In the following remarks I shall endeavour to avoid controversy, and to refer only to actions and to facts which, whatever their motives and origin, can hardly be misconstrued.

58. When the serious character of the financial obligations of the State in times of famine had been recognized, it became the duty of the Government of India to make sure that the public resources were adequate to meet the fresh strain imposed upon them. Upon careful inquiry we came to the conclusion that we must contemplate a liability from famine amounting, in loss of revenue and actual expenditure, to, on an average, 15,000,000*l*. in ten years. It was clear that this liability must be included among our ordinary obligations, and that it would have been a fatal error to go on increasing the public debt to meet charges which must periodically occur. To enable us to discharge the liability thus estimated, we determined to aim constantly at a surplus of 1,500,000*l*., supplemented by a further surplus of 500,000*l*. to provide for extraordinary and abnormal demands other than famine, as, for example, to name the most serious of such demands, for war.

This standard surplus of 2,000,000*l*. was to be ascertained on a comparison of the revenues with the expenditure, exclusive of—first, productive public works, which, to whatever extent might be necessary, it was assumed might be provided for by loan; secondly, famine relief, and loss of revenue due to famine; thirdly, protective works, i.e., works not strictly fulfilling the definition of productive public works, but constructed specially for the protection of the country against famine; and fourthly, abnormal expenditure, other than for famine, as, for example, on war.

I do not stay to inquire afresh how far the standard thus adopted was adequate to the object in view, namely, the solvency of the State, although I believe it to have been so; I only recite facts.

59. In order to secure this standard average surplus of 2,000,000*l*., the Government next resolved that it was necessary to increase the revenues of the country. The occasion for such increase was the recognition of the increased obligations of the State in times of famine, and the measures of taxation adopted were framed in the belief that there were certain classes upon which this particular burden ought primarily to fall. As I have already explained, that taxation amounted originally to 1,345,000*l*. It has now been reduced to 1,000,000*l*.

60. Whether the public accounts show surplus, equilibrium, or deficit, it is indisputable that these taxes must prevent debt by the exact amount which they yield, and that, when famine occurs, our

resources for meeting it will be increased by an amount exactly equal to the amount obtained from these taxes, with compound interest upon them. This part of the subject needs no further remarks.

I have shown to-day that the precise burden borne by the country during these three years for this purpose has been or is estimated to be—

	£
In 1878-79	1,227,891
In 1879-80	1,184,000
In 1880-81	982,000
	<u>3,393,891</u>

The actual expenditure on famine relief has been or is estimated to be :—

	£
In 1878-79	313,420
In 1879-80	99,000
In 1880-81	5,000
	<u>417,420</u>

Therefore the taxation thus levied in these three years has enabled us to defray the expenditure on famine relief, and, moreover, to prevent debt to the amount of 2,976,471*l.* with interest upon this sum. That this result has been achieved is self-evident, and, being independent of the surplus or deficit of the revenue as a whole, requires no further demonstration.

61. I have perhaps already said enough upon the other part of this subject. The standard which we accepted was 2,000,000*l.* revenue in excess of the expenditure on the ordinary account, excluding the expenditure upon famine, and other abnormal obligations. In my opinion this standard has been, in each of the three years of which I am speaking to-day, greatly surpassed.

It will doubtless be always right to scrutinise rigidly and jealously the validity of the grounds upon which any part of the public expenditure is excluded from the account upon which the surplus for comparison with our standard surplus of 2,000,000*l.* is ascertained; but I believe that, if the accounts and estimates of the three years before us are subjected to the most severe criticism, it will be found that the actual and estimated surplus of revenue during this period does truly far exceed the 6,000,000*l.* which, according to the standard which we have prescribed for ourselves, should be attained in three years, if the solvency of the State is to be ensured.

62. I find an apt illustration of our policy in this matter ready to my hand, which I quote the more willingly, because it is, in other respects, of much interest. According to present prospects, in the ten years ending with 1880-81 we shall have spent, all told, including productive public works, war, and famine, 36,848,000*l.* more than our whole revenue. The items included in this expenditure, which should be excluded before applying our standard, are—

	£
Productive public works*	35,881,000
War in Afghanistan	9,250,000
Famine	14,607,000
Total	<u>59,738,000</u>

Our revenue will have exceeded the rest of our expenditure by 22,890,000*l.*; and, but for loss of revenue from famine, this surplus would have been 25,890,000*l.*, or, on an average, 2,589,000*l.* a year.

Thus, during these ten years, with an average surplus of 2,589,000*l.* to compare with our standard of 2,000,000*l.*, we expect to have defrayed the whole cost of our famines and our wars from our revenues, excepting only the trifling deficiency of 967,000*l.* Considering the magnitude of our expenditure on famine and war during this period and the immense increase of charge under loss by exchange, this retrospect appears to me highly satisfactory.

63. I wish I could say that our plans for the construction of works for the actual prevention and relief of famine had been as successful as our financial arrangements have been. And this brings me, my Lord, to another part of my subject.

Financial safety was by no means our sole object. We felt not only that we had financially to provide the means of relieving famine when it occurred, but that the equally important duty devolved upon us of doing everything which it was possible for a Government to do, towards preventing these most terrible of all natural calamities, and furnishing the country with the machinery by which, when they occurred, the largest practicable amount of relief could be most speedily and effectually distributed. The new taxation and the other measures by which our finances were improved would give us, we believed, the means of carrying out these objects with a certainty and rapidity which would otherwise have been difficult.

The investment of our surplus in productive public works was, from a merely financial point of view, in no sense essential to our scheme, and it will be seen, from what has been said elsewhere, that this part of our plans was modified by the orders of the Secretary of State in a manner to which, on financial grounds, we could take no exception. But we certainly contemplated the extensive construction of works for the protection of the country against famine; and it was to these projects that public attention was mainly directed, and in them the public naturally and rightly felt a deeper interest than it could take in any merely financial arrangements.

* Including 11,076,000*l.* spent on what I have called doubtful works.

64. A nobler programme was, in my opinion, never put forth by any Government than that put forth by your Excellency; a more beneficial scheme was, in my judgment, never formed for the material improvement of any country than the scheme which your Excellency explained to this Council on the 27th December 1877, in your Minute of March 1878, and on other occasions. I desire to remind the Council and the public of what the plans of the Government of India were, and to explain why they have not been carried into effect as completely as we desired. Pages 208 and 4.

65. I wish, my Lord, it were possible for me to read to the Council, and incorporate in this financial statement, your Excellency's speech of the 27th December 1877. As I cannot do this, but am anxious to place the whole case in the clearest light, I must ask your Excellency's permission to string together some passages from that speech, for I could not describe the programme of the Government in any words so good as those which your Excellency used—

"The measures now before the Council have for their principal object the provision of that increase of the public income which experience has proved to be the first condition of any practical insurance against famine; and, therefore, it is only proper that the Council should know how we intend to employ the resources which its adoption of these measures will place at our disposal for that purpose. Page 209.

* * * * *

"Of the countless suggestions made from time to time, and more especially during the present year, for rendering less bitterly ironical than it still seems, that famous inscription on the huge granary built at Patna, for 'the perpetual prevention of famine in these provinces,' there are only three which merit serious consideration. These are firstly, emigration; secondly, railways; and, thirdly, irrigation works. Unfortunately for India the first of these three material factors in the practical solution of problems similar to those we are now dealing with is inapplicable, or only very imperfectly applicable, to the actual conditions of this country; * * * though emigration unquestionably claims our fostering encouragement, I fear that, for many years to come, we must practically exclude this expedient from the list of those on which we mainly rely as a means of insuring the population of India against the calamities of periodical famine. The conclusion thus arrived at forcibly confines our immediate efforts to the most rapid development, by the cheapest methods, combined with the most appropriate and efficient application, of the only two remaining instruments for increasing the produce of the soil, facilitating its circulation, and thereby improving the general social condition, and augmenting the collective wealth, of the whole community. Those instruments are railroads and irrigation works.

"Now the incalculable value to India of her present railways has been unmistakeably demonstrated during the past year; and the Government is unquestionably bound to stimulate the extension of this class of works to the greatest extent and with the greatest rapidity consistent with the requirements of financial prudence.

"* * * It is an unquestionable fact that the railways, and the railways alone, were the salvation of the situation in Northern Behar during the famine of 1874; and that they have again been the salvation of the situation in Madras during the famine of the present year.

"* * * Had there been no railway within reach of these districts, the people, where they have now died by hundreds, must have assuredly succumbed by thousands.

"I am satisfied that the development of a network of subsidiary lines of railway giving the means of transport through every district of British India has become a matter of vital necessity for the attainment of the great object now before us. Our present object is to render available within the shortest possible time a maximum length of line, especially constructed for a slow goods traffic, rather than to provide those more ample conveniences for passengers and goods, which have commonly been deemed necessary for all Indian railways hitherto constructed. * * *

"The early conclusion of such an undertaking must necessarily depend upon its financial practicability; and, for this reason, all minor considerations must be subordinated to the most rigid economy in construction, and the most severe limitation of the works to what is indispensable for the efficient exercise of their special function. But, if these conditions be duly complied with, I have confidence that, at a comparatively early period, we shall, without any strain upon our financial resources, have extended to all parts and provinces of our empire the most efficacious protection, not indeed from dearth (for that is impossible), but from those terrible effects of dearth which now generally terminate in famine. Page 211.

"These, then, are the principles on which we are prepared to apply at once to the extension of our railway system, as a means of insurance against famine, an adequate proportion of the resources at our command for that purpose. * * *

"We propose to apply to the extension of irrigation works precisely the same principle and policy. * * *

"I am not now speaking of what we ought to do, or would do, to ensure this country against the worst effects of future famine, had we only the means of doing it; but of what we can do, and will do, with the means already provided for in the measures now before the Council. I do not mean to say that the construction of such an extensive system of local railroads and irrigation works as we propose to undertake will not be the gradual task of many years. But I do mean to say that, in the manner and on the principles already explained, we are now providing for the prompt commencement and uninterrupted continuation of this great and necessary task. We are systematising a policy, the principles of which have been repeatedly proclaimed and approved by our predecessors. We are associating with it the interests, the powers, and the duties of our local administrations. We are providing them with the means of permanently prosecuting and developing it, not without reference to our financial control, but exempt from the distressing uncertainty which has hitherto been inseparable from the practical execution of this policy, in consequence of the obligation, which has till now rested upon the Government of India, with the very limited funds at its disposal for the Page 214.

prosecution of public works, to choose, from year to year, between the conflicting claims upon its purse of the various and dissimilar localities of this spacious empire."

66. My Lord, I am convinced that the policy, which your Excellency thus proclaimed your resolution to carry out, was not only wise and humane, because it provided the only possible means by which the Government could protect the country against the future calamities of famine, but that, financially, it was sound and prudent. Notwithstanding many mistakes which, in transactions of such magnitude, were inevitable, the policy by which, for many years past, we have been constructing railways and canals in India was, in my belief, sound and statesmanlike in its conception, and its practical results have been triumphantly successful. The wealth of the country, and the prosperity and happiness of its people, have been increased by it to an incalculable extent; the consequent gain to the country and the public finances has been immense, and is not to be measured by figures showing only the direct returns from the works which have been constructed. For my part, I see no drawbacks, no dangers, and no disadvantages which deserve to be weighed for one moment against the benefits which have been derived. The Government of your Excellency desired to extend and develop this policy, and hoped, by the construction of a network of cheap railways and of carefully planned works of irrigation, to do all that it was in the power of a Government to do, to prevent the frightful calamities of famine to which the country is now periodically exposed. We believed, and I believe still, that we could do this, not only without financial risk, but with certain financial advantage.

67. The local governments shared our convictions and our expectations. Sir Ashley Eden, the Lieutenant-Governor of Bengal, was prepared to undertake, from the resources already assigned to him, a system of railway communications which, without costing the imperial revenues a shilling, would, he believed, have added millions to the wealth of his great province. Sir George Couper sent us up a scheme, carefully prepared by my friend General Fraser, for constructing a complete system, some twelve or thirteen hundred miles in length, of light railways, which, in combination with works of irrigation, would have gone far, if not to make future famines in the North-western Provinces improbable, at least to render the relief of such famines a comparatively easy and a certainly successful operation.

68. My Lord, these visions have for the present, but I hope only for the present, faded. The plans which your Excellency described to the Council two years ago, and which I have repeated to-day, have not yet been carried out; we have had to defer the hope of protecting the country against famine by the rapid development of railways and works of irrigation; and not only this, but we have even been compelled largely to reduce the expenditure which, for many years past, we have been incurring on works of this description.

My Lord, I shall not call in question the sufficiency of the reasons which led Her Majesty's Government, and a Committee of the House of Commons, to think that a very large reduction should be made in the expenditure of the Government of India on productive public works; nor is it necessary that I should now repeat those reasons, because they have been fully explained in the Report of the Committee, which was published during the last session of Parliament. Nor do I wish it to be supposed that I am insensible to the advantages which we derive from this temporary restriction of expenditure. It has enabled us to carry out in a way which might otherwise have been hardly practicable important reforms in the Public Works Department, and to get rid of hugely overgrown establishments.

69. The limit of 2,500,000*l.* which has been placed on our annual expenditure on productive public works has avowedly no sort of finality. "The amount to be annually expended" (I am quoting from the Report of the Committee of the House of Commons) "should mainly depend upon the financial condition of India, and should, therefore, for the present be limited to an amount of 2,500,000*l.*, as recently fixed by the Secretary of State for India in Council." Considering what our financial condition already is, and what we hope it will be in the future, I predict with confidence that the check, which has been placed upon our expenditure on useful works essential to the progress of the country and to its protection against famine, will be only temporary, and that the execution of the plans described by your Excellency two years ago has been only temporarily deferred. But at the same time I wish to make it clear that, if the Government of India has failed for the present fully to carry out its programme for the construction of material works for protecting the country against famine, no responsibility for that failure rests upon us. While I say this, I must again ask the Council to remember that, however much we may regret this disappointment, it in no way affects the financial efficacy of the measures taken to enable us to discharge our obligations in times of famine without fear of insolvency. Nothing can prevent the success of those measures, which have been subjected to this modification only, that, owing to the improvement of our general financial position, we have ventured to dispense with about a quarter of the additional taxation (amounting at its maximum to 1,345,000*l.* a year), which was their main feature.

70. I may here notice, with regard to the policy of the construction of productive public works, that, although the correspondence on the subject between the Government of India and the Secretary of State is not concluded, it is understood that the following points have been settled for the present:—

- i. That any money which it may be necessary to borrow for the construction of such works shall be borrowed in India in rupees, and not in London in sterling money.
- ii. That not more than 2,500,000*l.* a year, on an average, shall be thus borrowed, in addition, however, to any capital expended upon the East Indian Railway or any other undertaking which may be hereafter acquired by the State in like manner; in addition also to any money which may be lent to the Government of India by native states for the construction of productive public works.

iii. That the yearly grant for the construction of productive public works shall not exceed 2,500,000*l.* in addition to the capital expended upon the East Indian Railway or any undertaking similarly acquired hereafter, and to the expenditure upon any works the funds for the construction of which are lent to the Government of India by native states.

iv. That the unexpended portion of the grant of the past year may be re-granted for expenditure in the following year. The object of this provision is to prevent the waste and inconvenience incident to the lapse of unspent grants for the construction of public works.

As already explained, the grant for the construction of productive public works in 1880-81 has been regulated strictly by these principles.

* * * * *

98. Besides less important savings, which I need not now detail, there has been in the present year a reduction in the public works expenditure of 661,000*l.* I hope that 400,000*l.* to 500,000*l.* a year will eventually be permanently saved by getting rid of superfluous establishments. Some explanation is necessary on this subject.

99. Before any orders to reduce the expenditure on productive public works had been issued by the Secretary of State, or the question of reducing the ordinary public works expenditure had been taken up afresh by the Government of India, it was an acknowledged fact that the strength of our public works establishments was enormously in excess of what was necessary. When the Secretary of State ordered, subject to certain conditions, the reduction of our annual expenditure on productive public works to the sum of 2,500,000*l.*, this excess became, of course, a still more serious evil. I will not now go into the question of the causes which led to the growth of these needlessly large establishments. It is easy to be wise after the event; they were, for the most part, the result of errors of system which were only discovered to be errors by experience. However this may have been, we found ourselves, at the beginning of the present financial year, in this position, that our public works establishments were declared by the highest authorities in the Public Works Department to be costing not less than 500,000*l.* a year more than was necessary for the expenditure on ordinary and on productive works which had to be carried on. We therefore resolved that these superfluous establishments must be at once reduced.

100. The local governments and the authorities in the Public Works Department deserve the thanks of the Government of India for the efficient manner in which the serious task of making this great reduction has been performed. I think it will be admitted that the measures of the Government were carried out with the greatest possible consideration to individuals, and that the engineers, with whose services we have unwillingly been compelled to dispense, have been treated liberally. The reductions actually made will save us 250,000*l.* a year. In the present year there will, of course, be a large set-off on account of pensions and gratuities; it amounts, indeed, to about 280,000*l.*; but the greater part of the cost of reduction will be incurred once for all in the shape of gratuities.

Although these great changes in the constitution of the Public Works Department could not be made without some temporary inconvenience, there can be no doubt, I hope, that they will lead to a permanent increase of efficiency. Our difficulties, however, are not over; our public works establishments are still larger than they ought to be, and the constant supply of young engineers that pours in from Cooper's Hill will, if it be not speedily stopped, prove a cause of renewed embarrassment, and of useless and serious expense.

101. Before leaving this subject, there is one important point that I must notice. It will be plain from what I have said, or have still to say to-day, that the Government of India looks with regret on the reduction of expenditure on productive public works, and that it hopes to see that expenditure again increased hereafter. How, it may be asked, holding these opinions and expectations, can you justify this reduction of public works establishments? If, hereafter, your expenditure is increased, as you hope it will be, you will have deprived yourself of the machinery necessary for the execution of your works.

102. If, my Lord, this were true, I should, for my own part, have thought our proceedings very foolish; but I am satisfied that we need be under no apprehensions of the kind. I think that I cannot better explain the views of the Government on this subject than by reading to the Council the following extract from a Despatch addressed by the Government of India to the Secretary of State in September last:

"Our present difficulties have not disturbed our belief in the great importance of the most rapid possible development of the means of communication and other material improvements in India.

* * * * *

"With these convictions, we should not have acquiesced, without remonstrance, in the absolute permanent restriction to 2,500,000*l.* a year, of our expenditure on the construction of productive public works, if we had understood this to be your Lordship's intention. * * Accordingly, we have been careful so to frame our proposals for the re-organisation of our establishments that we shall have no difficulty in hereafter increasing our expenditure on productive public works to any extent which is likely to be considered expedient. We could not have undertaken any reductions not compatible with this condition.

"The ordinary difficulty of organising an efficient and economical service has been aggravated, in the case of the Public Works Department, by the fluctuations of public policy which have manifested themselves in large variations of the grants made for expenditure in this department. We need not now inquire into the causes of these fluctuations, and we do not wish to criticise the policy either of the school which advocates a lavish public expenditure on such works, or of that which regards with distrust any such expenditure which can be avoided. It only concerns us now to recognise the fact that we have no reason for expecting hereafter more immunity from such alternations of conflicting

influences than we have enjoyed heretofore. Our duty, therefore, is to anticipate their recurrence, and frame our measures accordingly.

"We have resolved, therefore, to organise our permanent establishment, rather upon the model of the staff of a great contractor, supplementing it, as occasion requires, by temporary establishments engaged for particular works only, with no claim to absentee allowances, pensions, employment upon any other work, or any of the rights and privileges of a regular establishment. Moreover, we desire to look more and more to the employment, upon considerable undertakings, of contractors with large capital, and to the development of the existing system of petty contracts for petty works. In this way we expect to avoid a recurrence of the inconvenience from which we are now suffering.

"We anticipate no difficulty in carrying out the policy thus designed; on the contrary, we believe that, while guarding us against a return of our present embarrassment, this policy will, by encouraging persons to adopt the profession of civil engineer, and otherwise, promote the general interests, and be favourable to the extended employment of natives of India in this department of our service, an object which we have much at heart."

107. I cannot now take up the time of the Council with any elaborate comparison between our present financial position and that of 10 or 20 years ago. As, however, there seems to be an impression that there has been a great increase in the public expenditure, I will briefly compare the accounts of our net expenditure in 1868-69 and 1869-70 with the accounts of 1878-79 and the estimates of 1880-81. That this comparison may be effective, I have eliminated the expenditure from local funds, recently incorporated with the rest of the public expenditure, and also the expenditure on the war in Afghanistan. In like manner I have removed throughout the credits from the extinct military funds. I have then divided the net expenditure thus ascertained into four groups, as follows:

First.—Land revenue (except charges of collection, surveys, and settlements), post office, administration, minor departments, gaols and penal settlements, law and justice, police, marine, education, ecclesiastical, medical, stationery, printing, political, and miscellaneous.

Second.—Interest, loss by exchange, furlough allowances, pensions, and famine.

Third.—Public works, telegraphs, railways, and canals.

Fourth.—The army.

The whole net expenditure thus classified is as follows:—

	1868-69.	1869-70.	1878-79.	1880-81.
	£	£	£	£
Group I.—Effective civil administration	10,042,000	10,489,000	10,997,000	11,255,000
Group II.—Non-effective civil expenditure	7,054,000	6,543,000	11,182,000	10,536,000
Group III.—Public works	8,195,000	6,235,000	3,454,000	1,883,000
Group IV.—The army	15,137,000	15,251,000	15,441,000	15,330,000
Total	40,428,000	38,518,000	41,074,000	39,004,000

108. Group I.—The effective civil charges proper have increased in the 12 years by about one million sterling, of which 587,000*l.*, under the head of law and justice, is due to the development of backward provinces, such as Assam, Burma, and Oudh, and to improved administration; and 233,000*l.*, under education and medical services, is to be attributed to the constant demands for more schools and dispensaries. It does not seem to me that either the fact that the whole active civil administration of this great country costs only net 11¼ millions a year, or the increase of its cost in 12 years by 1¼ million sterling, is indicative of any laxity of financial control or any disregard of the interests of the taxpayers.

109. Group II.—The non-effective civil charges, many of which are not subject to control, show an increase of about 3½ millions, caused mainly by the disturbance of the relative values of gold and silver, but also notably by the growth of the pension list. Notwithstanding the addition of 37¼ millions (net) to our debt, the charge for interest shows little or no increase,* the rate of interest having been, by successive operations, involving labour and forethought, constantly reduced. The average rate of interest upon the whole debt is now 4·40 per cent.

110. Group III.—The growth of the revenue from railways, telegraphs, and canals, and the reduction of the expenditure on public works ordinary, has produced a diminution of the net expenditure in this group of more than six and a quarter millions a year, which therefore largely exceeds the increase in Group II. During this period we have spent 65¼ millions sterling upon railways, including the guaranteed railways, canals, and telegraphs. The result shown in the figures here given is remarkable evidence of the manner in which India responds to outlay of this character.

We have seen that in the coming year the revenue derived from productive public works is likely to exceed the interest on the capital expended in their construction, together with the working expenses. I have read criticisms in which the policy of constructing these works has been condemned on the ground that they had not yielded, and in many cases were not likely to yield, any extra profit after fully paying their expenses. But, if the Government has succeeded in making these magnificent works for nothing, that is, without throwing any permanent charge for them on the people of India, surely it may well be contented.

* 450,000*l.* was saved in 1874-5 by the redemption of the capital stock of the East India Company.

111. Group IV.—Although there was an intermediate reduction of the cost of the army, the net military expenditure here shown is little larger in the later than it was in the earlier years.

112. Owing to the rapid improvement in the financial results of our railways, canals, and telegraphs, and to economy in the expenditure on public works ordinary, the whole net expenditure shows no increase, but a positive reduction.

113. Considering that during this period the charge for loss by exchange has increased by 3 millions, and that, including the guaranteed railways, we have invested no less than $65\frac{1}{4}$ millions in productive public works, this, my Lord, is a result of which the Government of India need not be ashamed, and which I earnestly commend to the study of those statesmen who, from motives worthy of all respect, but which appear to me to be founded upon a dangerous misapprehension of facts, would withhold from India those material benefits which are to be obtained only by the expenditure of capital upon the development of her vast resources.

No. 153.

DESPATCH to the GOVERNMENT OF INDIA, December 23, 1880, No. 435 (Financial).

MY LORD MARQUIS,

PARAGRAPH 1. In the 50th paragraph of my Despatch, dated the 5th of August last, No. 259, I stated that I should make a separate communication to your Excellency on the subject of the disposal of money raised for the special purpose of providing an insurance against famine.

2. The letter from your predecessor's Government, dated the 25th of February, No. 81, said that it had been found impossible to comply with Lord Cranbrook's instructions to embody in the accounts or financial statement "any explanations of the mode in which the stated sum of 1,500,000*l.* has been applied to the direct relief of famine, the reduction of debt, or the construction of protective works." Page 308.

3. In the telegram from the Viceroy, dated the 24th of February, it was said that, in his financial statement on that day, "Sir John Strachey stated that former plans regarding famine insurance had been completely successful, and declared objects thoroughly fulfilled." In the statement it was argued that, excluding the expenditure upon famine and other abnormal obligations, the standard surplus proposed by the Government when imposing the special taxes had been surpassed, and that, "whether the public accounts show surplus, equilibrium, or deficit, it is indisputable that these taxes must prevent debt by the exact amount which they yield, and that, when famine occurs, our resources for meeting it will be increased by an amount exactly equal to the amount obtained from these taxes, with compound interest upon them." Page 311.

4. I cannot accept this argument as a proof that the result of the famine insurance policy has been the attainment of the desired object. At all events the form in which that policy received practical application, and the manner in which it has from time to time been explained, have given rise to a widely diffused opinion that the Government has not given effect to the pledges offered when the special taxes were imposed to secure the additional surplus, and the existence of such an opinion, whether justified or not, manifestly renders a reconsideration of the whole subject desirable.

5. The urgent necessity for making some provision in years of prosperity to meet the known inevitable heavy demands of seasons of drought and famine cannot be questioned, and it was hoped that the measures taken in 1878 would give the requisite security. The experience that has since been obtained, though in circumstances of an acknowledged abnormal nature, appears to me to throw so much doubt on the real fitness and efficacy of those measures, that I request your Excellency to take the whole subject again into consideration, and to inform me what, in your opinion, will be the best way of dealing with it. In the event of your thinking legislative action desirable, your proposals should be previously communicated to me for my approval.

I have, &c.

HARTINGTON.

LETTER from the GOVERNMENT OF INDIA, February 2, 1881, No. 30 (Financial).

MY LORD MARQUIS,

Page 317.

WE have the honour to acknowledge the receipt of your Lordship's Despatch No. 435 of December 23, 1880. In the 5th paragraph of that Despatch your Lordship says:—"5. The urgent necessity for making some provision in years of prosperity to meet the known inevitable heavy demands of seasons of drought and famine cannot be questioned, and it was hoped that the measures taken in 1878 would give the requisite security. The experience that has since been obtained, though in circumstances of an acknowledged abnormal nature, appears to me to throw so much doubt on the real fitness and efficacy of those measures, that I request your Excellency to take the whole subject again into consideration, and to inform me what, in your opinion, will be the best way of dealing with it. In the event of your thinking legislative action desirable, your proposals should be previously communicated to me for my approval."

2. Before proceeding to make any proposals for the future, it will be necessary to allude briefly to the events of the past.

Page 239.

3. In the debate in the Legislative Council of February 9, 1878, Sir John Strachey said that "the necessity was imposed upon the Government of India of bringing the public revenues and expenditure into a state of proper equilibrium; that famines could no longer be treated as exceptional calamities, and that the obligations entailed by them must be provided for among the ordinary charges of the State. The periodical recurrence of famine must, therefore, enter into the calculation of Government in making provision for its ordinary yearly wants, and such a surplus of ordinary income over expenditure must be provided in each year of prosperity as would make a sensible impression on the debt which it might be necessary to incur in times of famine."

Sir John Strachey then proceeded to explain that, judging from past experience, it might be assumed "that in every 10 years the Government of India would have to spend 15,000,000*l.* on the relief of famine." If, he added, we provide "a *bond fide* surplus of 1,500,000*l.* a year for 10 years, we shall have obtained our 15,000,000*l.*"

We need not go into the detailed calculations on which this figure of 1,500,000*l.* was based. They are given in paragraphs 75 and 100 of the report of the Famine Commission, Part I.

4. In order to secure an annual surplus of 1,500,000*l.* new taxes were imposed. We do not, however, propose at present to go into the question of how the money may best be provided. We confine ourselves to a consideration of the policy on the assumption that the money can be found somehow.

5. We consider that the essential parts of the policy as above enunciated are quite sound, and we propose that in the financial statement for 1881-82 the opportunity should be taken of re-affirming it.

6. Although the general policy enunciated by Sir John Strachey appears to have met with general approval in 1877, and, indeed, so far as we are aware, has not since been impugned, the question of whether the policy was or was not successfully carried out has been the subject of much controversy. The facts appear to be as follows.

7. The new taxes came into operation at the commencement of the year 1878-79. During that year they yielded a sum of 1,227,891*l.* During this year, however, a great fall in the value of silver took place, and the whole of the new taxation was swallowed up in the additional charges on account of loss by exchange. In 1879 the proceeds of the new taxes amounted to 1,184,000*l.* But on account of the war it was naturally impossible to provide a *bond fide* surplus of receipts over expenditure. This year (1880-81) the same taxes as now modified are estimated to yield about 982,000*l.* We need hardly point out that this year there will be no *bond fide* surplus.

Page 311.

8. In making his budget statement for 1880-81, Sir John Strachey summed up the results of the policy. Whether, he said, "the public accounts show surplus, equilibrium, or deficit, it is indisputable that these taxes must prevent debt by the exact amount which they yield, and that when famine occurs our resources for meeting it will be increased by an amount exactly equal to the amount obtained from these taxes, with compound interest upon them."

He then pointed out that of the 3,393,891*l.* which either had been or would be collected during the three years, 417,420*l.* had been expended on famine relief, and he added, "the taxation thus levied in these three years has enabled us to defray

the Government continues to borrow for productive public works, involve the old sinking fund without a surplus? It is this question, on which there may be two opinions, which has to a great extent given rise to those doubts in regard to the execution of the famine insurance policy to which I have already alluded.

61. The success or otherwise of the policy depends upon the answer which can be given to the question—is it desirable to convert sterling into rupee debt? The Government is of opinion that, within certain limitations, it is desirable to effect this

62. The grounds for holding this opinion are as follows :—

1. It is essential to a sound condition of State finance that the elements of certainty and stability should prevail to as great an extent as possible. No such certainty or stability can be attained if the State owes a large sum of money in a currency other than that in which it collects its revenue.

2. It is desirable in years of prosperity to reduce the home liabilities, in order that, in times of emergency, the Government may fall back on the London market and borrow without any aggregate increase in their amount.

3. It may perhaps be urged that the object in view will, in any case, only be gained in appearance, and not in reality; that it signifies little whether interest is payable in gold or silver, or whether a loan is issued in London or Calcutta, for that in either case the money will be subscribed by investors resident in Europe, and that the so-called loss by exchange depends, not on the amount of the Secretary of State's bills, but on the cumulated transactions of the Secretary of State and the public.

64. If this argument is carried out to its logical conclusion, it involves a reversion to the policy of contracting sterling loans whenever it is possible to obtain money by such means cheaper than by contracting to pay interest in silver. The adoption of this course, although in contradiction to the principles which have been laid down by successive Secretaries of State, is advocated by many high authorities.

65. The Government is of opinion that it would be inexpedient at present to revert to the policy of contracting obligations in gold, for the following reasons :—

(1.) The best solution of the question would be to obtain money from local investors at the same rate as from residents in Europe. If Government loans are issued in India, and if the interest is payable in silver, we may hope to attract some local capital. If they are issued in London, and the interest is payable in gold, we are almost certain to attract no local capital.

(2.) It is the opinion of those who speak with the authority of long practical experience, that the effect on exchange of the amount which India has annually to remit to England would not be so oppressive if the bills to be placed on the market were more equally distributed between the Secretary of State and the public.

(3.) Any extension of our sterling obligations is in the nature of a speculation, which may prove successful or the reverse, according to whether the value of silver in respect to gold rises or falls.

66. Although, however, the advantages of remitting to England in order to extinguish sterling debt may be admitted, it is possible to pay too high a price for those advantages. The difference between the value of rupee and sterling stock may be so considerable as to render the transaction undesirable. Further, there are practical difficulties in the way of giving effect to the policy. The amount of the home disbursements is now so large that, unless there be a rise in the value of silver, or unless the amount of exports is increased, it may be difficult to remit home 750,000*l.* more than at present. For these reasons the Government cannot take any positive pledge that, even when a *bond fide* surplus of receipts over expenditure is secured, it shall be applied to the reduction of sterling debt.

67. With a view to the effectual execution of the famine insurance policy, it is in contemplation to nominate a commission for the reduction of debt. The precise constitution and duties of the commission have not as yet been determined. Should there be no *bond fide* surplus of receipts over expenditure, or should that surplus be less than 750,000*l.* the Government will publish its reasons for not transferring any money or 750,000*l.* to the Commissioners. Should it be found desirable to invest money, rather than to apply it at once to the extinction of sterling debt, the nature of the investment will rest with the Government.

68. The Government, therefore, is to provide 1,500,000*l.* a year

as an insurance against famine. The first use to which this money will be applied is the relief of famine. Should no expenditure under this head be required, 750,000% will be applied to the construction of protective public works. The remainder (750,000%) will, in the event of there being a surplus of receipts over expenditure, be transferred to the "Commissioners for the Reduction of Debt." This, I say, is the present policy of the Government. Like any other policy, it is liable to change; but the particular point on which I wish to lay some stress is, that the amount to be provided as an insurance against famine is only so far dependent upon the receipts from the license tax and the public works cesses, that those receipts go to a part of the general revenue, and by so much facilitate the execution of the policy in question. I consider of the Government is, in fact, to apply annually a specified sum from the official revenue in order to provide an insurance against famine. There is no special connexion between the amount so provided and the amount received from the license tax and the public works cesses. Those taxes have never yielded so large a sum as 1,500,000% any one year.

9. It is to be borne in mind that up to the present time the policy of the Government has been to provide a surplus of 2,000,000%, of which 1,500,000% was for famine insurance, and 500,000% was for any extraordinary contingencies that might arise. I have explained that the 1,500,000% for famine insurance will henceforth be treated as expenditure. This sum is entered under "Famine Relief, Protective Works, and Commissioners for Reduction of Debt," in the estimates for the year. The surplus which we wish to attain is thus reduced to 500,000%.

No. 156.

DESPATCH to the GOVERNMENT OF INDIA, April 14, 1881, No. 135 (Financial).

MY LORD MARQUIS,

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PARAGRAPH 1. I have considered in Council your Excellency's letters, dated the 2nd of February, No. 30, and the 14th of February, No. 38, on the subject of the measures which should be adopted in order to carry into effect the pledges which have been given by the Government of India, regarding the provision to be made in years of prosperity in order to meet the inevitable heavy demands arising in seasons of drought and famine.

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2. In my Despatch of the 23rd of December 1880, No. 435, I stated the doubts I entertained as to the real fitness and efficacy of the measures hitherto adopted, and requested your Excellency to take the whole subject again into consideration, and to inform me what would, in your opinion, be the best manner of dealing with it.

3. It is to be regretted that so little time remained after the arrival of Major Baring at Calcutta, before it was necessary for your Excellency to communicate to me the measures which, in response to my request, you had determined to recommend; and that two members of your Council should have recorded Minutes adverse to the proposal, one of the chief reasons for their objection being the haste with which resolution had been adopted. In the circumstances, however, I think that your Excellency exercised a wise discretion in at once communicating to me the result of consideration which you had given to the subject, as the manner of dealing with question of famine insurance is too important a portion of your financial policy, to find a distinct place in the statement which your Government is about to publish regarding the estimates for the ensuing year.

4. I observe with satisfaction that your Excellency is of opinion that the policy providing an insurance against the liabilities arising from famine should be continued, and I concur in your view that it is advisable to show more distinctly to the taxpayers of India that the sum of 1,500,000% will be annually applied, either to the direct relief of famine, or to the provision of an insurance for future years.

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5. In Viscount Cranbrook's Despatch of the 20th of February 1879, No. 62, it was laid down in paragraph 18 that one-half of the annual provision, or 750,000%, should be held available for remittance to England for the repayment of debt already incurred in this country on account of famine. The remainder, it was said, might be appropriated, at the discretion of your Government, to the payment of debt, to the relief of famine, or to the construction of protective works. The expression was explained to mean works not necessarily directly relieving famine, but thus used in the sense of guarding against a probable future famine of the population.

11th paragraph of my Despatch of the 6th of January last, No. 1, I re-
 principle that, in ordinary times, protective works should be constructed
 not from borrowed money; and I stated my opinion that the appro-
 000%, out of the 1,500,000% provided for famine insurance, would be
 is purpose.

Excellency proposes that the heading of "Famine Relief" in your accounts
 be changed to "Famine Relief and Protective Works," and that, in the budget
 of the year, the sum of 750,000% shall be entered as expenditure under this
 subject to which this money shall be applied being the relief of actual
 existing, and the second object being the construction of protective
 works. You mention that you will shortly lay before me your recommenda-
 tions regarding the precise nature of the works of this character to be undertaken in
 the year 1881-82; and you observe, incidentally, that, if any action is taken in the
 way of establishing a special department to deal with famine, as recommended in the
 report of the Famine Commissioners, the cost thereof should, in your opinion, be
 defrayed from the million and a half of famine insurance. I hope before long to receive
 the views of your Government on the very important question of the action to be
 taken in consequence of that report.

8. You point out that, inasmuch as famine might arise after the arrangements for
 the year had been made, the money spent in relief would be in addition to that ex-
 pended on protective works, unless the works were stopped, with, in all probability, a
 considerable loss. In view of the possibility either that no material outlay may be
 needed during the year in actual relief, or that, if distress should occur, it may arise in
 the very districts in which the protective works are being constructed, and that they
 may thus afford a suitable means for the employment of the distressed population, I
 approve of the proposal that the sum of 750,000%, or thereabouts, shall in general be
 allotted to the construction of these works; and I further authorise your Government,
 when you think it proper to do so, to re-allot any portion of the grant which may not
 have been spent in the previous year, as has been already sanctioned in the case of
 productive public works. At any time when it may become evident that outlay will
 be needed in the actual relief of the people, it will, of course, be requisite for you to
 consider to what extent it may be necessary to restrict the grant for protective works,
 as for any other portion of your expenditure.

9. With regard to the remaining portion of the 1,500,000% allotted for famine
 insurance, namely, the 750,000% which, under Lord Cranbrook's orders, was to be held
 available in the first instance for the reduction of debt in England, you propose that
 no change should be made in the manner in which this sum should appear in your
 budget estimates; that is to say, you would, under the head of expenditure in connexion
 with famine, enter only the 750,000% allotted to protective works, and would leave the
 application of the remaining sum to the extinction of debt to be dependent on the
 attainment of a *bonâ fide* surplus of receipts over expenditure.

10. The manner in which this question shall be dealt with in the final accounts
 will be referred to presently. As regards the estimates, however, considering the
 importance of making full provision for the disposal of the whole sum, the advantage
 of showing this in a manner which will be readily apparent to the public, and the
 probability that in some years there will be a large expenditure on famine beyond the
 provision for protective works, I am of opinion that the heading should be enlarged
 so as to cover any payment which may be made during the year in connexion with
 famine, whether on direct relief, on protective works, or in reduction of debt, and
 that the full sum of 1,500,000% should therefore be always inserted in the budget
 estimate under that heading.

11. I entirely concur in the observations of your Excellency as to the advantage of
 reducing debt in England, though undoubtedly the state of the exchanges may at
 times make it possible that a remittance for this purpose would involve the payment
 of too high a price for that advantage, and that therefore no positive pledge should
 be given that the debt to be reduced by the provision for famine insurance should
 always be sterling debt.

12. Your Excellency is of opinion that the object in view of giving to the public
 adequate securities for the reduction of debt, without taking inconvenient pledges
 regarding the method in which the debt shall be reduced, can best be secured by the
 appointment of Commissioners for the reduction of debt, who should be nominated by
 the Government, and to whom the Government should be obliged to hand over 750,000%
 at the beginning of the year or as soon as the accounts are settled. In the event of no money
 being placed in the hands of the Commissioners, the financial member of

Council should be obliged to state his reasons, which would be published by the Commissioners with whatever comments they might think fit to make upon them. The Commissioners should, you observe, be empowered to apply the funds at their discretion to the reduction of debt, your proposal being apparently that they should decide of the manner in which the funds should be so applied; and they might apply the money to the Government treasury, if they should be satisfied that that was the manner in which it could be applied was the reduction of the amount to be borrowed for public works.

13. To this portion of your Excellency's proposals I can only give assent. I approve of the constitution of Commissioners for the reduction of debt, and that they should be selected by your Excellency, and should be persons of the highest or non-official class, European or native, not necessarily chosen as having special knowledge of financial measures, but whose character and position are such as to command the respect of the public, and to prevent any doubt from being cast on the integrity of their conduct. Their duties would be limited to giving a certificate that they were satisfied that the sum of 750,000*l.* had been duly appropriated to the reduction of debt, or a statement that a less sum had been applied to the purpose, and to the publication of an account showing the manner in which the amount had been appropriated. In the event of the Government being obliged to record their reasons for not fully carrying into effect their intentions, they would themselves publish their observations, and it would be no part of the duty of the Commissioners to comment thereon.

14. The determination of the best mode of appropriating the money to the reduction of debt is so important a part of the financial measures of the Government, and so intimately bound up with its financial policy, that I am unable to consent to its being entrusted to any other authority. Moreover, it appears to me inconsistent with the provisions of the 41st clause of the Act 21 & 22 Vict. c. 106., by which it is provided that "the expenditure of the revenues of India, both in India and elsewhere, shall be subject to the control of the Secretary of State in Council," for me to delegate to Commissioners the duty of investing a portion of the revenues of India independently of my control. Their position in the matter should not be that of an executive body entrusted with action, but rather that of auditors whose duty would be limited to ascertaining that due action has been taken, and giving their certificate accordingly.

15. For the purposes of account their constitution may serve an important purpose, as a payment can be made to them of the money devoted to reduction of debt, thereby enabling the transaction to be treated as an item of expenditure. If this course be adopted, it will be necessary to lay down that the Commissioners shall apply the funds for the relief or prevention of famine or for the reduction of debt, as directed by the Government, and they should not have any discretion enabling them to refuse to carry out the instructions on the ground that some other course would in their opinion be preferable.

16. In regard to the manner in which the requisite entries shall be made in the accounts, I forward a memorandum by the Financial Secretary of this office, and I shall be glad to have the opinion of your Government on the subject. It is of course essential that the record shall be strictly in accordance with the actual transactions.

17. In reference to your remarks regarding the impropriety of speaking of a special famine insurance fund in direct connexion with the license tax and cesses, I consider that it should be made clear to the public that the policy of such an insurance consists in the application of a specified sum annually from the general revenues for certain purposes, and that, although in furtherance of this policy it was necessary to impose certain taxes, it has no direct connexion with the amount of the receipts from those particular imposts. The propriety of maintaining or remitting taxation must be judged by the Government as a whole, and, so long as due provision is made for the famine insurance, the pledges of the Government will be fulfilled irrespective entirely of the amount collected from the special taxes imposed in 1877 and 1878.

18. In compliance with the request made at the close of your letter, I addressed to your Excellency on the 8th ultimo the following telegram:—"Appointment of Commissioners for reduction of debt approved. If full amount of 750,000*l.* is not transferred to them, Government should publish reasons, but do not allow Commissioners to publish comments thereon. Do not commit yourself to details of constitution and duties of Commissioners till you receive Despatch, especially as to Government responsibility and mode of investment. Their main duty is to certify proper appropriation of money. Insert in budget 1,500,000*l.* for relief, protective works, and amount to Commissioners for reduction of debt."



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